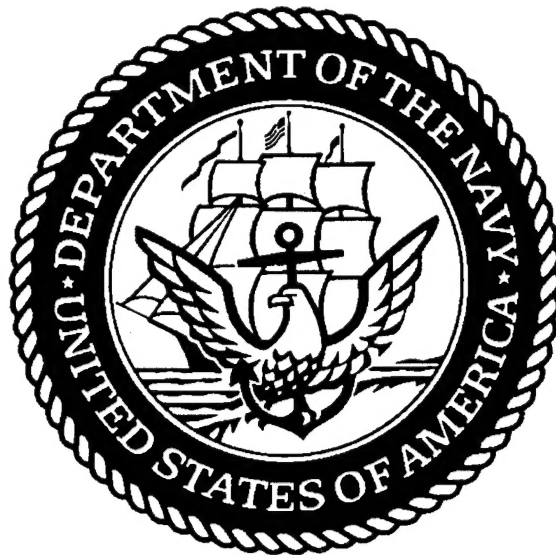


FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

FY 1995 STATEMENT OF ASSURANCE



DEPARTMENT OF THE NAVY

DISTRIBUTION STATEMENT A

Approved for public release;

Distribution Unlimited

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THE ASSISTANT SECRETARY OF THE NAVY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, D.C. 20350-1000

FEB 26 1996

MEMORANDUM FOR DISTRIBUTION

Subj: DEPARTMENT OF THE NAVY MANAGEMENT CONTROL PROGRAM

Encl: (1) FY 1995 DON Annual Statement of Assurance

Secretary of the Navy Instruction 5200.35C, Department of the Navy (DON) Management Control Program, requires managers to conduct annual evaluations so they have reasonable assurance that the systems of internal controls are effective in safeguarding assets. Managers of DON resources should perform vulnerability assessments, conduct management reviews, identify material weaknesses and establish action plans to correct those weaknesses.

As executive agent for the DON Management Control Program, I am distributing the Fiscal Year (FY) 1995 DON Annual Statement of Assurance, enclosure (1), so you are aware of DON material weaknesses and the actions underway to correct them. Please have your managers use the results of this report as they review their areas of responsibility. If you have weaknesses in any of these areas, report them along with corrective actions via your chain of command. We want to make sure that these weaknesses are corrected throughout DON and not just in isolated activities.

Thank you for your support and cooperation. I know through your efforts in maintaining an effective Management Control Program, we will be able to certify with reasonable assurance in our FY 1996 report that our systems of internal control are effective in safeguarding our assets and achieving our mission.

My point of contact for the Management Control Program is Mr. Warren Pfeiffer, DSN 327-1505 or commercial (703) 607-1505.

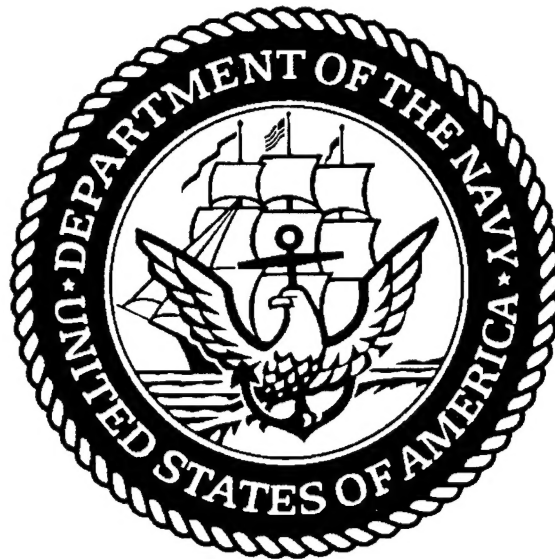
per
4/8/96

Deborah P. Christie
DEBORAH P. CHRISTIE

Distribution:
SNDL Part II

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

FY 1995 STATEMENT OF ASSURANCE



DEPARTMENT OF THE NAVY



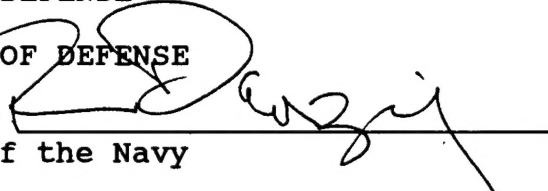
THE UNDER SECRETARY OF THE NAVY
WASHINGTON, D.C. 20350-1000

NOV 27 1995

EXECUTIVE SUMMARY/COVER BRIEF

MEMORANDUM FOR THE SECRETARY OF DEFENSE

THROUGH: DEPUTY SECRETARY OF DEFENSE

FROM: Richard J. Danzig 
Under Secretary of the Navy

SUBJECT: DEPARTMENT OF THE NAVY (DON) FEDERAL MANAGERS'
FINANCIAL INTEGRITY ACT STATEMENT OF ASSURANCE FOR
FISCAL YEAR 1995

PURPOSE: ACTION -- This statement provides DON input which, when combined with the other services will form the SECDEF Annual Certification Statement forwarded to the President and the U.S. Congress by 31 December 1995.

DISCUSSION: The DON has evaluated the system of internal administrative and accounting controls in effect during Fiscal Year (FY) 1995 in a conscientious and thorough manner. To the degree that information has been made available, despite issues identified in the FY 1995 audits, and except for identified material weaknesses, the system of internal control in effect during FY 1995 provided qualified reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act were achieved. Information to support the statement was derived from management control program reviews, audits, inspections, investigations, and other management studies. The statement of certification is also supported by statements of assurance received from each ASN/Navy Principal which are based on certifications received from their subordinate organizations.

Tab A provides an evaluation of the internal control program and FY 1995 accomplishments. Tab B provides a progress report on the DOD High Risk Areas. Tabs C-1, C-2, and C-3 respectively provide a list and a summary of uncorrected and corrected material weaknesses. Tab D reports deficiencies and corrective actions in DON accounting systems.

SUBJECT: DON FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT ANNUAL
STATEMENT FOR FISCAL YEAR 1995

TABS:

- A - Management Control Evaluation Process
- B - DOD High Risk Areas
- C-1 - Uncorrected and Corrected Material Weaknesses, A Listing
- C-2 - Uncorrected Material Weaknesses
- C-3 - Material Weaknesses Corrected This Period
- D - Report on Accounting Systems

MANAGEMENT CONTROL EVALUATION PROCESS

1. **Concept of Reasonable Assurance.** The system of internal administrative and accounting control of the Department of the Navy (DON), in effect during the Fiscal Year (FY) ending 30 September 1995, was evaluated using the Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government. The Director of the Office of Management and Budget in consultation with the Comptroller General issued these guidelines, as required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982. Included is an evaluation of whether the system of internal administrative and accounting control of the DON is in compliance with standards prescribed by the Comptroller General.

a. The objectives of the system of internal administrative and accounting control of the DON are to provide reasonable assurance that:

(1) obligations and costs are in compliance with applicable law;

(2) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation;

(3) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets; and

(4) programs are efficiently and effectively carried out in accordance with applicable law and management policy.

b. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits expected to be derived therefrom, and that the benefits consist of reductions in the risks of failing to achieve the stated objectives. The expected benefits and related costs of control procedures should be addressed using estimates and managerial judgement. Furthermore, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal administrative and accounting control including those

TAB A

limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, projection of any evaluation of the system to future periods is subject to risk because procedures may be inadequate due to changes in conditions, or because the degree of compliance with procedures may deteriorate. Therefore, statements of reasonable assurance are provided within the limits of the preceding statements.

2. Determination of Reasonable Assurance Status.

a. Structure. The organization and structure of the DON and daily actions taken to maintain a modern, quality naval force are major factors that contribute to the Secretary of the Navy (SECNAV) having reasonable assurance that the system of management controls are operating as intended. DON's Management Control Program is decentralized and covers all shore commands and afloat forces. SECNAV, through the Assistant Secretary of the Navy Financial Management and Comptroller (ASN(FM&C)), is responsible for overall administration of the Management Control Program that includes developing operational policy and procedures, coordinating reporting efforts and performing oversight reviews. Primary responsibility for program execution and reporting is placed with the Assistant Secretaries of the Navy, the Chief of Naval Operations (CNO), the Commandant of the Marine Corps (CMC), the Secretariat staff offices and other major commands. Each of these 14 components provides the Secretary with an annual Management Control Certification Statement that are source documents for SECNAV's determination that there is qualified reasonable assurance the system of internal administrative controls is working.

Line managers at all organizational levels schedule and perform individual risk assessments and management control reviews, monitor and track corrective actions, and report identified weaknesses judged to be material through their chain of command. In fact, the DON has approximately 2,500 Management Control Program coordinators who support thousands of managers as they evaluate the systems of internal controls related to their mission areas. In addition, audits, inspections and investigations issued by the General Accounting Office (GAO), the Department of Defense Inspector General (DODIG), the Naval Audit Service (NAVAUDSVC) the Naval Inspector General (NAVINSGEN), and the Director, Naval Criminal Investigative Service

(DIRNAVCRIMINVSVC) are reviewed to identify potential DON-wide issues.

Except for limited scope audits, the NAVAUDSVC routinely assesses the effectiveness of management controls in the course of auditing and, where warranted, explicitly addresses management control deficiencies in its reports as a means of ensuring managerial accountability. To limit the duplication between the audit follow-up process and the requirements of the FMFIA Management Control Program, the requirement for DON components, Echelon 2 and below, to review and consider audit findings for reporting as FMFIA material weaknesses, was revised. The Commanding Officers of Echelon 2 and those commands/activities below are responsible for reporting to their immediate superior only those weaknesses from audits which, in their opinion, represent significant breakdowns in management controls and material weaknesses in programs and functions under their direct command and authority. In addition, the Auditor General of the Navy (AUDGEN), in collaboration with the ASN(FM&C)'s Management Control Division, is responsible for identifying potential material weaknesses resulting from audits. Potential draft weaknesses are provided to DON senior level functional managers for their review. On the basis of an annual evaluation of the DON's management control certification statement, the AUDGEN issues an independent assessment of the statement that is provided to SECNAV. This independent assessment serves as a check and balance and becomes another source for giving assurance to SECNAV that the systems of internal control are working and, to the extent possible have been properly evaluated.

The forces afloat are also an integral part of the DON Management Control Program. Numerous alternative management control reviews, in the form of shipboard inspections and reviews, are conducted on a continual basis to ensure the effectiveness of all operational, financial, administrative and quality-of-life controls in place on all naval ships. In fact, on average there are some 25 different inspections on each ship throughout any fiscal year, giving assurance that the system of internal controls is working. The Executive Steering Committee conducts weekly progress reviews to discuss weaknesses that are discovered through the inspection program. Such issues as safety-related deficiencies on weapons elevators, high rates of communication system degradation and ineffective maintenance practices of

amphibious ships are given immediate attention. These regular progress reviews ensure that pending corrective action of identified deficiencies or other remedial action is accomplished.

Another key component of the DON's Management Control Program is senior management's involvement. Before the FY 1995 Annual Statement is presented to SECNAV for signature, the Assistant Secretaries of the Navy, the AUDGEN, CNO, CMC, NAVINSGEN, and DIRNAVCRIMINVSVC review the statement and provide comments/concurrence. For each DON material weakness reported, the appropriate senior functional proponent(s) must ensure that corrective actions are implemented and progress is monitored.

b. **Discovery Process and Statistical Data.** During FY 1995, Navy and Marine Corps components reviewed, for necessary adjustments, more than 1,718 risk assessments that were performed during FY 1992. Of the 1,718 risk assessments, 23% were rated high risk, 60% rated medium risk, while 17% were rated low risk. The risk assessments were used to establish the management control plans of the components with those areas having a high risk rating being the first to be reviewed. The components performed over 3,154 Management Control Reviews and Alternative Management Control Reviews (such as audit findings, inspections, and investigations), using the results to determine the adequacy of the DON's internal controls and to establish and implement new controls where needed.

In addition, the DON analyzed the results of over 231 GAO, DODIG, and NAVAUDSVC audit reports. Also, the results from DON investigative and inspector general organizations were considered. Generally, significant weaknesses selected for reporting to the Secretary of Defense (SECDEF) are either within a GAO high risk area, related to a Consolidated Information Management issue, a high visibility item as a result of congressional and media interest, or represent either a DON-wide pervasive problem or issues which should be highlighted to the SECDEF.

The DON distributed the DOD FY 94 Annual Statement, both Volumes I and II to the Assistant Secretaries of the Navy, CNO, CMC, and other Echelon I organizations. DON functional managers were encouraged to use the DOD Statement as a source of information as they reviewed their areas of responsibility. They also were

encouraged to review and use the document as they worked with the DOD functional managers in identifying material weaknesses effecting not only the DON but the DOD as well.

Based on feeder statements from the DON Secretariat staff offices and Echelon 1 components two new uncorrected weaknesses are being reported. Moreover, eight weaknesses reported in prior years were expanded for the FY 1995 Statement. The DON maintains a tracking system to provide status of corrective actions for reported material weaknesses. During FY 1995, the DON tracked prior year weaknesses and reported corrective actions for six of those material weakness.

Through weekly briefings that principal officials have with senior managers, the DON issues affecting the Department are discussed. The agenda of these meetings helps track the status of emergent issues and contributes to information that managers use to assess how well their programs are working and how well their problems are being resolved.

The annual performance reviews of all personnel within the DON provide data for determining the checks and balances needed in an organization to ensure mission outcomes. Also, from these performance reviews managers determine whether or not the critical elements of personnel are meeting the mission of the component and to what extent personnel job descriptions are current and are covered by written procedures.

During FY 1995, various DON components performed efficiency reviews. To accomplish an efficiency review managers must assess their internal organizational structure, mission and functions to determine optimum efficiency and economy of operation. The results of these reviews give managers the data to make adjustments to their organizations to ensure mission accomplishment.

Since the capitalization of many of the DON's policy and functional areas such as accounting, supply and logistics, monthly meetings with the appropriate DOD components gave DON management information on the status of programs and issues affecting organizations across the services. Through these status reports, managers assessed the effectiveness of controls.

Conclusion: Since not all functions and programs are reviewed each year, reasonable assurance is only expressed for those areas reviewed by the DON components during FY 1995. Therefore, to the degree that information has been made available, despite issues identified in audits, and except for the material weaknesses reported, SECNAV has qualified reasonable assurance that the systems of management controls are operating as intended.

3. Consolidating Material Weaknesses. Direction four, "Concise Reporting of Weaknesses" of the DOD Management Control initiatives, encourages the Services to aggregate weaknesses that have a common functional basis whenever possible. The DON consolidated several prior year weaknesses into newly reported material weaknesses for the FY 1993 DON Certification Statement. Corrective actions may take longer to correct for consolidated issues than for single issues.

Upon reviewing sources, component input, and other data for the FY 1995 statement, the DON added sources and milestones to several of the broad pervasive weaknesses reported in prior FY DON statements. Adjustments to milestones and target dates for the "Unmatched Disbursements (OSD # 93-022)" and the "Unliquidated and Invalid Obligations (OSD #94-018) weaknesses reflects DON's commitment to solving those issues. The issues that were addressed in the FY 1994 Chief Financial Officers Act audit of the Defense Business Operations Fund were documented in the "Department of the Navy Revolving Funds Chief Financial Office (CFO) Financial Statements Accountability (OSD # 93-021)" reported in FY 1993.

In numerous cases overstated requirements at individual DON activities were reviewed and corrected. However, several sources and milestones expanded the "Requirements Determination (OSD #93-061)" weakness first reported in FY 1993. Added to that weakness was revising guidance to ensure that modifications to weapons are reflected in the requirements for repairable items thereof.

Milestones and sources were added to "Controls Over Operating System and Security Software (OSD #94-012)" weakness to address the issue of inadequate controls over operating systems that make it possible for knowledgeable users to improperly access, modify, or destroy sensitive computer data and programs without

detection. Several sources were added to the "Base Realignment and Closure commission (BRAC) Military Construction Costs Data (OSD #94-054)". Though many of the milestones were completed, cost estimates for BRAC continue to be questioned in most of the new sources added to the weakness. The "Excess Material and Unrecorded Inventories (OSD #93-062)" weakness was expanded to include the issue of managing shipyard material. Finally, we expanded "Navy Enlisted Classification Code Training (OSD #93-049)" to include revising guidance requiring Quota Control Authority approval for all assignments to NEC producing courses.

4. **Training DON Managers.** Educating and training DON managers at all levels on the processes and requirements of the Management Control Program is central to achieving the objectives of the FMFIA. In addition to the general courses of other government agencies in which DON managers may participate, the following is a summary of DON activities contributing to education and training:

a. Activities throughout the DON provide Management Control Program training for managers.

b. The CNO's training manual, issued during FY 1992, has proven valuable to managers. This training manual includes materials from the DON's train-the-trainer course, including a brief history of the Management Control Program, program forms (with instructions) and case studies.

c. The Navy Practical Comptrollership Course (PCC), offered at the Naval Postgraduate School in Monterey, CA, contains a chapter on the DON's Management Control Program. This course makes an important contribution to education and training in the area of the Management Control Program processes and requirements. The PCC is offered 6 times a year to mid-level civilian accountants, budget analysts, and junior and senior level military personnel. Over 245 individuals received extensive instructions in this training forum in FY 1995.

d. The DON provides Management Control training to prospective commanding officers prior to assuming command responsibility at their next duty station. This training is designed to help commanders keep abreast of the most recent

program change and fundamental requirements of the DON Management Control Program.

e. Senior level functional managers were encouraged to attend the DOD Internal Management Control Conference. The conference addressed the seven systemic DOD-wide weakness and the corrective actions that have been initiated.

5. **Accomplishments.** The following paragraphs address accomplishments of the DON's Management Control Program during FY 1995.

a. The ASN(FM&C) distributed the FY 1994 DON Annual Statement of Assurance to all shore activities. The intent was to make managers aware of DON material weaknesses and the actions underway to correct them. Managers were encouraged to use the results of the statement as they reviewed their areas of responsibility and take appropriate corrective actions.

b. During FY 1995, the DON continued performing quality assurance reviews to ensure FMFIA implementation and documentation. Thirty quality assurance reviews were conducted at subordinate DON commands in London, Rota, Naples, Jacksonville/Mayport, FL, Corpus Christi, TX, San Diego, CA and Pearl Harbor, HI. In addition to determining whether the Management Control Program is fully implemented, the Management Control staff uses the reviews to provide on-site assistance where needed. Managers are reminded to consider all areas of responsibility such as operational and mission areas as well as administrative areas for inclusion in their inventory of assessable units. These reviews also serve as a feedback mechanism wherein field activities have the opportunity to provide suggestions for improving or streamlining program requirements/reports. At the majority of the commands reviewed, the Management Control Program was satisfactorily implemented. Common problems found during the reviews were the following:

- (1) corrective actions of completed milestones need to be tested to ensure completion and effectiveness of corrective actions and
- (2) a follow-up system needs to be developed and used. The DON found quality assurance reviews to be an effective means to ensure Management Control Program compliance and quality. We plan to continue the Quality Assurance Review Program for FY 1996.

c. Reorganizations are continually occurring. Consequently, the responsibility for specific functions and the related internal controls are being transferred within or between components of the DOD. Reorganizations are being closely monitored to ensure that all assessable units are properly accounted for and included in this year's annual statement. In fact, proper documentation of those assessable units covering the DON assets and resources transferred to other DOD components was noted during the quality assurance reviews.

d. The DON has developed a revised method for performance evaluation called the Navy Performance and Counseling System. Transition to the New system began on 1 July 1995 with a six month introduction during which each officer and sailor was counseled. A new standards-based report form will be required after 1 January 1996. The new system requires the involvement of all levels of supervision in the evaluation and counseling process including chief petty officers who must now rate junior enlisted personnel.

e. In the midst of dramatic reductions in the size of the Navy, several DON activities are making use of CD-ROM technology. For example the Naval Personnel (BUPERS) is applying the technology to make the Navy's military personnel publication system more effective and efficient. The first CD-ROM disk, released in September 1995, contained two of the Navy's primary personnel manuals: the Navy Military Personnel Manual (MILPERSMAN) and the USN Uniform Regulations. It also contained the Bureau's Organizational Index. BUPERS will make quarterly distributions of the revised disk to include additional manuals and copies of recently issued instructions and forms. The goal is to have all essential components of DON's military personnel publication system on disk by October of 1996.

f. During FY 1995, an Acquisition Reform Office was established and chartered to focus on DON efforts for improving and streamlining our acquisition and business processes. As a national performance review initiative, the DON has selected five high payoff processes which are being reengineered to reduce cycle time by at least 50% by the year 2000. The DON has made significant strides in eliminating the use of Military Specifications and Military Standards and replacing them with performance specifications. This has greatly facilitated our

ability to purchase commercial off-the-shelf products. DON is utilizing a Request For Proposal (RFP) team to monitor progress in writing performance-based solicitations and implementing acquisition reform. The use of performance specifications in contracts awards will provide the operating forces with more affordable, more timely, and better performing weapons systems.

g. The DON processes approximately 1,600,000 contractual actions annually, with over 60,000 of these actions valued at over \$25,000. To reduce instances of unethical behavior, improper actions, and simple human error, personnel working with contractual actions receive classes in ethics, professional training and other courses related to performance of their positions. DON has slotted 8,250 spaces in acquisition specific training courses DON-wide. Acquisition training is just a part of DON's efforts to implement the Defense Acquisition Workforce Improvement Act.

h. During FY 1995 a DON-wide review of the Planning, Programming, and Budget System was initiated for the purpose of reengineering and streamlining the process. Several Process Action Teams (PATs) were formed to assess specific areas. The streamlining effort will continue into FY 1996.

6. **Other Accomplishments.** Other accomplishments during FY 1995 include:

a. The DON's ability to detect, investigate and deter procurement fraud has improved with enhanced training programs, more effective use of resources through consolidation, continued emphasis upon initiative operations, and improved awareness through briefing programs. During FY 1995, 369 procurement fraud cases were opened and 145 were closed. For example, DON efforts resulted in a \$1,000,000 civil settlement agreement regarding false claims and restitution of \$785,770 for fraudulent claims associated with packing and storage services not performed. An area of concern is the lack of compliance by field activities to provide suspension/ disbarment reports to the Procurement Integrity Office.

b. Other fraud cases investigated during FY 1995 identified deficiencies related to:

- (1) Mischarging of labor hours on labor intensive contracts;
- (2) Misrepresentation of manpower resources by companies during the bid process;
- (3) Violations of federal wage and standards under the Davis-Bacon Act;
- (4) Substituting less expensive labor to perform work bid at a higher rate;
- (5) Bribing procurement officials;
- (6) Providing kickbacks by subcontractors to higher tier subcontractors and/or prime contractors;
- (7) Dumping, disposing, storing and transporting of hazardous waste or toxic pollutants;
- (8) Submitting false claims with respect to pay and allowances and official travel.

c. The Navy Hotline Program opened 904 cases with a 33% substantiated rate and a total Navy benefit of about \$100,000.

d. The DON's Occupational, Safety and Health (NAVOSH) unit conducted 91 oversight inspections at the DON installations world-wide. The majority of commands had viable programs to protect the safety and health of their employees. The base closure process highlighted the requirement that activities retain adequate qualified staff to administer the NAVOSH programs and maintain effective safety and occupational health programs during base closure.

e. The Navy Environmental inspection Team (NEIT) conducted inspections at 11 locations. The team evaluated cleanup, compliance, conservation, and pollution prevention. The most significant observations arising from these inspections were:

- (1) Compliance of activities overseas remains a significant challenge.

- (2) Implementation of Hazardous Material Minimization Center has resulted in improved environmental compliance, increased operational efficiency, reduced costs, and greater safety.

(3) Changes to regulations related to the Clean Air Act amendments continue to emerge and affect compliance in the near term.

f. During FY 1995, 1391 larceny of government property investigations were completed with a total reported loss value of \$22,729,100. Recoveries through investigative efforts totaled \$12,505,300.

g. A total of \$47,000,000 missing, lost, stolen, and recovered (MLSR) government property was reported through the MLSR reporting program. The total value of all property recovered was \$4,000,000. Past experience indicates that most recoveries are corrections of inventory errors or involve finding property that had been misplaced, not stolen.

h. A Computer Crime Investigations Group was created during FY 1995. The mission of this group is to ensure that the appropriate naval personnel have the proper support and training to successfully resolve investigations involving DON's information infrastructure from intrusion into its networks and information warfare environment.

7. Significant Issues:

a. Amendments to the Prevention of Pollution from Ships Act of 1980 required the DON to comply with the discharge requirements for solid waste and garbage from ships by 1993. Navy requested Congress to extend the compliance deadline to FY 1998. In addition to research and other programs, DON established the Shipboard Solid and Plastics Waste Management Program. The report due to Congress in 1996 is ahead of schedule. A plastic processor will be ready for installation in surface ships by the end of FY 1998. Finally, through active dialogue with other countries, the DON is further along than any foreign Navy in addressing solid waste at sea. (GAO Report NSIAD 95-38).

b. The DON continued to address environmental issues and concerns. The DON's Report to Congress on Ozone Depleting Substances (ODSs) was completed in July 1995. The report detailed DON's ODSs program and included corrective actions, projects, and funding profiles. In addition, the DON will

conduct a comprehensive data call in support of the DOD Measures of Merit for ODSs. The data collected will be used to evaluate the current status of DON efforts to eliminate ODSs from weapon systems and facilities and to determine if additional actions are required. DOD's close oversight via the Clean Air Act Steering Committee provides necessary management to ensure compliance with environmental laws and regulations by DON concerning elimination of ODSs. (GAO Report No NSIAD-94-243 of 24 August 1994, and NAVAUD Report No. 019-95 of 25 January 1995)

c. Dehumidifying in-service aircraft could offer benefits, such as high mean-time-between failure of components. The DON will continue research rather than implementation of in-service dehumidification of aircraft. Funding was identified to fund a 1 to 2 year pilot program to validate the projected potential savings if dehumidification of in-service aircraft were to be implemented (NAVAUDSVC Report 025-95).

d. The DON will continue to monitor the Third Party Collection Program and pending completion of a NAVAUDSVC audit, and will, if appropriate, report the issue as a material weakness in FY 1996. Procedures have improved for collecting inpatient hospital costs from primary health insurance plans. The DON continues to review the program to ensure that DON medical treatment facilities establish adequate procedures to identify all patients with health insurance coverage and to validate the integrity of collections. (DODIG Report 94-017 of 6 December 1993)

8. **Plans.** During FY 1996 the DON will:

a. Begin rewriting an updated DON Management Control Program instruction based on the revised Office of Management and Budget Circular A-123 and DOD revised guidance when issued. DOD instructed the services not to issue guidance until DOD guidance is issued.

b. Continue to review opportunities to streamline and improve Management Control Program processes with the objective to reduce redundancy in reporting and unneeded paperwork. Continue to concentrate on the identification and timely correction of weaknesses including, but not limited to, those in

"High Risk" problem areas and those related identified DOD systemic weaknesses.

c. Continue the on-site Quality Assurance Review Program to ensure that the statutory intent and implementation principles of the Management Control Program are being adhered to, that implementation problems are identified and corrected, and that all improvement initiatives are recognized and incorporated into the overall program.

d. Following DOD's emphasis on senior level involvement, continue to stress top management interest, involvement and support of the Management Control Program and the importance of developing and implementing adequate and timely corrective actions. Work with Navy managers to improve methods for the accumulation and use of shipboard inspections to determine systemic weaknesses.

e. Conduct a one day seminar for DON Management Control Coordinators for the purpose of introducing and discussing the revised SECNAVINST governing the program.

f. Reconsider audits identified in the NAVAUDGEN's report as potential material weaknesses for FY 1995. These issues may not have been significant enough to report in FY 1995, however, could have potential as contributing to a systemic weakness to be reported in the FY 1996 FMFIA Statement of Assurance; the audits for reconsideration are as follows: DODIG Report 95-013, "Development of Ford Island, Pearl Harbor, Hawaii" of 19 October 1994; NAVAUDSVC Report 065-C-94, "Navy Family Housing Requirements" of 26 September 1994.

9. **DOD Systemic Weaknesses**: The DON has many ongoing initiatives relating to the DOD Systemic Weaknesses, however we listed only those material weaknesses that were identified and reported during FY 1995 or prior FYs.

a. **Acquisition Reform**

	C-2
<u>DON Material Weakness</u>	<u>Page</u>
(1) Acquisition Regulation Requirements	1
(2) Requirements Determination	22
(3) Inadequate Operational Testing for the Acquisition of Systems and Poorly Defined Program Initiations	38

b. **Environmental Deficiencies**

	C-2
<u>DON Material Weakness</u>	<u>Page</u>
(1) Compliance with Environmental Laws and Regulations by the DON Concerning Management and Elimination of Ozone Depleting Substances	69
(2) Hazardous Waste Management	72
	C-3
	<u>Page</u>
(3) Environmental Issues Relating to Major Systems Acquisition	8
(4) Environmental Compliance Deficiencies	11

c. **Department of Defense Total Asset Visibility**

	C-2
<u>DON Material Weakness</u>	<u>Page</u>
(1) Inventory Management of Handheld Missiles	3
	C-3
	<u>Page</u>
(2) Material Handling and Container Requirements	13

d. **Information Systems Security**

	C-2
<u>DON Material Weakness</u>	<u>Page</u>
(1) Navy's Military Personnel Records System (MPRS) Needs Replacement	8

(2) Controls Over Operating System and Security Software	11
(3) Defense Civilian Pay System (DCPS)	15

e. Inadequate Financial Accounting Process and Systems

	C-2
<u>DON Material Weakness</u>	<u>Page</u>
(1) Unliquidated and Invalid Obligations	17
(2) Productivity Gain Sharing (PGS)	20
(3) Department of the Navy Revolving Funds Chief Financial Office (CFO) Financial Statements Accountability	48
(4) Unmatched Disbursements	55
	C-3
	<u>Page</u>
(5) Improved Labor Estimates Can Reduce Shipyard Costs	3

f. Unreliable Financial Reporting of Personal and Real Property

	C-2
<u>DON Material Weakness</u>	<u>Page</u>
(1) Base Realignment and Closure Commission (BRAC) Military Construction Costs (MILCON) Data	5
(2) Excess Material and Unrecorded Inventories	29
	C-3
	<u>Page</u>
(3) Material Retention and Disposal Procedures	1
(4) Inaccurate Inventory Management of Torpedo Propulsion Batteries and Sonobuoys	16

g. The Third Party Collection Program

See TAB A, page 13, paragraph 7, d.

10. Point of Contact. The DON point of contact for the Management Control Program and issues dealing with material weaknesses reported in the FY 1995 FMFIA Statement of Assurance is Mr. Richard Gloss. Mr. Gloss can be reached on commercial (703) 607-1023, DSN 327-1023 or FAX (703) 607-2714.

HIGH RISK AREAS
STATISTICAL SUMMARY

For all High Risk Areas

Weaknesses Reported:	10
Less: Corrected	<u>3</u>
Net Uncorrected Weaknesses	7

For Each High Risk Area

Supply Operations:

Weaknesses Reported:	5
Less: Corrected	<u>2</u>
Uncorrected Weaknesses	3

Financial Accounting Process
and Systems:

Weaknesses Reported:	5
Less: Corrected	<u>1</u>
Uncorrected Weaknesses	4

WEAKNESS STATUS
SUPPLY OPERATIONS

UNCORRECTED MATERIAL WEAKNESSES

<u>Title of Weakness</u>	<u>OSD#</u>	<u>C-2 Page #</u>
Inventory Management of Handheld Missiles	FY95	3
Requirements Determination	93-061	22
Excess Material and Unrecorded Inventories	93-062	29

MATERIAL WEAKNESSES CORRECTED THIS PERIOD

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Material Retention and Disposal Procedures	94-004	1
Inaccurate Inventory Management of Torpedo Propulsion Batteries and Sonobuoys	86-16	16

Supply Operations

Material weaknesses as identified by the DON components for the high risk area of Supply Operations continue to focus on inaccurate inventory, excess material and unrecorded inventories, overstated requirements and inventory management. These weaknesses deal with the DON activities not purging uneconomical and unserviceable stock excesses, not adequately determining the proper requirements for equipment, supplies, and materials and record-keeping practices.

During FY 1995 the DON reviewed the oversight and record-keeping practices regarding the quantities, location and serial number of Category I missiles. Though the DON could account for all missiles, the activities could not always locate by serial number. To correct this problem the DON issued policy and procedural guidance requiring tracking and reporting missile inventory by serial number.

The DON clarified material retention and disposal procedures. The DON established procedures requiring reviews of contracting officers' justification for storing excess equipment from canceled or completed programs for a period of one year or more. Material that is retained was reclassified and material that was obsolete and unneeded was properly disposed. Physical inventories of sonobuoys were validated at stock points against the Conventional Ammunition Integrated Management System quantities and discrepancies with each activity were reconciled.

The DON continues to work with the problem of overstated as well as understated requirements. Budgeted and programmed quantities for consolidated automated support systems and test program sets were adjusted to reflect actual Consolidated Automated Support System procurement requirements. Other actions were initiated such as establishing a valid requirement for C-130s; basing future revisions for T-45A aircraft requirement calculations on the most cost effective ways to meet Navy's training needs; and updating an engineering cost model as new information becomes available. The DON will continue to work on developing guidance in the area of repairable items, items that are affected by weapon system modifications, and cataloging action for the modification programs are completed.

During FY 1995 the DON improved material management at shipyards thus reducing costs. For example, additional controls over issues of items with personal use value were established. A Process Action Team investigated losses. New procedures for shop store issues implemented at all shipyards under the Baseline Advanced Industrial Management should improve the handling of material. Finally, shipyards require spot checks to help prevent and control unrecorded inventory.

WEAKNESS STATUS
FINANCIAL ACCOUNTING PROCESS AND SYSTEMS

UNCORRECTED MATERIAL WEAKNESSES

<u>Title of Weakness</u>	<u>OSD#</u>	<u>C-2 Page #</u>
Unliquidated and Invalid obligations	94-018	17
Productivity Gain Sharing (PGS)	94-058	20
Department of the Navy Revolving Funds Chief Financial Officers (CFO) Financial Statements Accountability	93-021	48
Unmatched Disbursements	93-022	55

MATERIAL WEAKNESSES CORRECTED THIS PERIOD

		<u>C-3 Page #</u>
Improved Labor Estimates Can Reduce Shipyard	94-019	3

Financial Accounting Process and Systems

Material weaknesses as identified by the DON components for the high risk area of Financial Accounting Process and Systems continue to focus on problem disbursements, Chief Financial Officers Act financial accountability, productivity gain sharing, and improving estimating labor costs. Controls are not adequate to ensure prompt detection and correction of disbursing office errors and prompt recording of obligations. A lack of adequate controls resulted in questionable reliable financial information such as accurate inventory balances. Policies and procedures were lacking to provide for independent review and approval of awards.

Estimating labor costs were improved by establishing a labor standards improvement initiative and a procedure to inform planners of all new production processes, methods and equipment that improve work efficiency. DON also incorporated an audit process to independently assess labor estimates. These actions will provide controls to ensure accuracy and compliance with estimating labor costs.

During FY 1995, DON established central direction and control for problem disbursements. Working with the Defense Finance Accounting Service (DFAS), DON developed and agreed upon a strategy to address the systemic problem and to correct the incorrect transactions. A plan of action and milestones established priority items for system enhancements to reduce the flow of problem disbursements. In addition, DON resolved the problem disbursements in the closed M-accounts which will effectively reduce the total unmatched disbursements by approximately 5.4 billion dollars. As required by the Under Secretary of Defense (Comptroller), the DON has developed plans to resolve the backlog of problem disbursements by 1 October 1996.

The DON continues to work through the appropriate management commands to correct those problem areas that may result in unreliable data on the Chief Financial Officers Act Financial Statements. For example, DON is completing a plan to validate current balances of Operating Materials/Supplies, Net and Property, Plant and Equipment including depreciation. DON activities are using statistical sampling techniques as an

approach for conducting inventory counts. A plan is being completed to determine the value of excess inventory and the disclosure of excess inventory at net realizable value. DON also is validating accrual deficiencies and making the appropriate adjustments.

DON continues to develop guidance that will enhance productivity measurement requirements, ensure proper award calculations and program effectiveness reviews. This guidance is subject to constraints imposed by DOD and the National Performance Review requirements and recommendations.

UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES
A LISTING

Identified During Current Period:

<u>Title</u>	<u>Correction Date</u>	C-2 Page <u>No.</u>
Acquisition Regulation Requirements	9/96	1
Inventory Management of Handheld Missiles	9/96	3

Identified During Prior Periods:

<u>Title</u>	<u>FY Reported</u>	<u>Correction Date in Annual Statement of FY94</u>	<u>FY95</u>	<u>C-2 Page No.</u>
Base Realignment and Closure Commission (BRAC) Military Construction Costs (MILCON)	94	9/96	9/96	5
Navy's Military Personnel Records System (MPRS) Needs Replacement	94	9/99	9/99	8
Controls Over Operating System and Security Software	94	9/96	9/96	11
Navy Personnel and Transition Services	94	9/96	9/96	13
Defense Civilian Pay System (DCPS)	94	9/95	9/96	15
Unliquidated and Invalid Obligations	94	9/96	9/96	17
Productivity Gain Sharing (PGS)	94	9/95	9/96	20
Requirements Determination	93	9/96	9/96	22
Excess Material and Unrecorded Inventories	93	9/97	9/97	29
Inadequate Operational Testing for the Acquisition of Systems and Poorly Defined Program Initiations	93	9/97	9/97	38
Navy Enlisted Classification (NEC) Code Training	93	3/95	9/96	43

Identified During Prior Periods (con't):

<u>Title</u>	<u>FY Reported</u>	<u>Correction Date in Annual Statement of FY94</u>	<u>FY95</u>	<u>C-2 Page No.</u>
Aviation Continuation Pay (ACP) Bonus Program	93	3/95	9/96	46
Department of the Navy Revolving Funds Chief Financial Office (CFO) Financial Statements Accountability	93	9/95	9/97	48
Unmatched Disbursements	93	9/98	9/98	55
Naval Selected Reserve Force Mobilization Requirements	92	3/96	3/96	59
Sexual Harassment	92	9/96	9/96	62
Poor Utilization of Bachelor Enlisted Quarters (BEQs) Berthing Spaces and Transient Bachelor Officer Quarters (BOQs)	92	9/96	9/97	65
Compliance with Environmental Laws and Regulations by the DON Concerning Management and Elimination of Ozone Depleting Substances	92	9/95	9/96	69
Hazardous Waste Management	92	9/96	9/96	72
Family Service Centers	90	9/96	9/96	74

Corrected Material Weaknesses

<u>Title</u>	<u>FY</u> <u>Reported</u>	<u>Correction</u> <u>Date in Annual</u> <u>Statement of</u>		<u>C-3</u> <u>Page</u> <u>No.</u>
		<u>FY94</u>	<u>FY95</u>	
Material Retention and Disposal	94	9/95	9/95	1
Improved Labor Estimates Can Reduce Shipyard Costs	94	9/95	9/95	3
Federal Employees' Compensation Act (FECA) Case Management	93	9/95	9/96	5
Environmental Issues Relating To Major systems Acquisition	92	9/95	9/95	8
Environmental Compliance Deficiencies	92	9/95	9/95	11
Material Handling and Container Requirements	90	9/95	9/95	13
Inaccurate Inventory Management of Torpedo Propulsion Batteries and Sonobuoys	86	9/95	9/95	16

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY95

Title and Description of Material Weakness: Acquisition Regulation Requirements. Department of the Navy (DON) activities placed non-Department of Defense (DOD) interagency acquisitions improperly and did not meet the requirements of Federal, DOD, and DON financial and procurement policies. DON management delegated responsibility for determining if orders met financial and procurement requirements to various levels without establishing accountability and reporting requirements.

Acquisition regulations covering conflict of interest were not always followed. Contracting officers were not always including one or both of the conflict of interest provisions in solicitations and were not obtaining required certifications from contractors. Failure to comply with conflict of interest provision could result in contract awards where a conflict of interest or an unfair competitive advantage might exist.

Functional Category: Procurement

Pace of Corrective Action:

Year Identified: FY 1995

Original Targeted Correction Date: FY 1996

Targeted Correction Date in Last Year's Report: N/A

Current Target Date: FY 1996

Reason For Change in Date (s): N/A

Component/Appropriation/Account Number: Various

Validation Process: All corrective action(s) are certified by the responsible components upon completion and review through onsite verifications, subsequent audits, inspections, quality assurance reviews, and review of the milestones.

Results Indicators: Establishing accountability and reporting requirements for interagency acquisitions should provide DON with goods and services obtained economically and efficiently. Adherence to the policies and procedures concerning conflict of interest provision should avoid conflicts of interest in contract awards.

Source(s) Identifying Weakness: NAVAUDSVC Report No. 003-95, "Interagency Acquisitions at Selected Naval Activities" of 28

October 1994. DODIG Report No. 94-174, "Organizational and Consultant Conflicts of Interest" of 10 August 1994.

Major Milestones in Corrective Action:

A. Completed Milestones:

1. Issue memorandum to contracting officers emphasizing the importance of complying with the conflict of interest policies and procedures.

2. Review on-going solicitations to ensure compliance and that appropriate organizational conflict of interest clauses are included in contracts and applicable certifications obtained.

3. Make organizational and consultant conflict of interest a DON command special interest item to be reviewed as part of command procurement management reviews (PMRs).

4. Consolidate previously issued policy memoranda into one comprehensive policy ensuring only designated officials approve non-DOD Economy Act Orders.

5. Develop guidance that provides criteria to make supportable decisions concerning when to use Economy Act Orders.

6. Develop accountability guidance requiring that designated officials are aware of their responsibility for ensuring proper use of non-DOD Economy Act Orders.

7. Modify procurement management reviews (PMRs) to require use of the DON ASSTSECNAV(FM&C)'s summary reports for non-DOD Economy Act Orders to evaluate compliance.

B. Planned Milestones:

Date: **Milestone:**

9/96 Verification: All corrective action(s) are certified by the responsible components upon completion and reviewed through onsite verifications, subsequent audits, inspections, quality assurance reviews, and review of the milestones.

Point of Contact: Mr. Richard Gloss, (703) 607-1023

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY95

Title and Description of material Weakness: Inventory Management of Handheld Missiles. Oversight and record-keeping practices regarding the quantities, location and serial number of Category I missiles could be improved. The Marine Corps could account for Category I assets by quantity and no thefts or losses of Category I Missiles had occurred at Marine Corps Category I assets storage facilities. However, there were no procedures to track these missiles by serial number.

Functional Category: Supply Operations

Pace of Corrective Action:

Year Identified: FY 1995

Original Targeted Correction Date: FY 1996

Targeted Correction Date in Last Year's Report: N/A

Current Target Date: FY 1996

Reason For Change in Date(s): N/A

Component/Appropriation/Account Number: Various

Validation Process: All corrective action(s) are certified by the responsible command upon completion and review through on-site verifications, subsequent audits, inspections, quality assurance reviews, and/or management control evaluations.

Results Indicators: A potential could exist that the Marine Corps could lose some accountability for Category I Missiles.

Source(s) Identifying Weakness: GAO Report NSIAD-94-100, Inventory Management: Handheld Missiles Are Vulnerable to Theft and Undetected Losses of 16 September 1994.

Major Milestones in Corrective Action:

A. Completed Milestones:

1. Modify Ammunition and Accounting Management System to accept lot/serial number transactions from Navy ordnance management sites. (9/95)

2. Issue policy to requiring Category I (Stinger and Dragon) missiles, be reported by serial number. (9/95)

B. Planned Milestones:

Date: **Milestone:**

9/96 Verification: The adequacy of the corrective action
 will be evaluated by on-site verification and analysis
 of inventory reports.

Point of Contact: Richard Gloss, (703) 607-1023

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING Prior PERIOD
FY94

Title and Description of Material Weakness: Base Realignment and Closure Commission (BRAC) Military Construction Costs (MILCON) Data (OSD #94-054). Internal control procedures were not adequate or were not followed when developing cost estimates for Department of the Navy (DON) BRAC MILCON projects. The lack of internal control procedures resulted in requirements not adequately being supported with valid or proper documentation; project costs estimates being developed without considering existing facilities; and funding ceilings being established before developing project cost estimates. The time constraint dictated by the BRAC process was a contributing factor.

In previous years, BRAC funds controls were at the total appropriation level without regard to the FY. Since BRAC funds control, beginning in FY 95, will be by FY rather than by the "X-year" appropriation, an edit to the current accounting system is necessary. Without this change allocations could exceed individual FY authorizations and result in a possible violation of the Antideficiency Act.

Functional Category: Property Management

Pace of Corrective Action:

Year Identified: FY 1994

Original Targeted Correction Date: FY 1996

Targeted Correction Date in Last Year's Report: FY 1996

Current Target Date: FY 1996

Reason For Change in Date(s): N/A

Component/Appropriation/Account Number: MILCON 17Y1205

Validation Process: All corrective actions are certified by the responsible components upon completion and review through onsite verifications, subsequent audits, inspections, quality assurance reviews, and/or management control reviews.

Results Indicators: Strengthening DON internal controls will ensure the accuracy of data for BRAC MILCON projects and will allow DON to put to better use BRAC MILCON funds. Proper accounting edits should prevent over obligating funds.

Source(s) Identifying Weakness: Internal Control Review. NAVAUDSVC Report 023-S-94, "Military Construction Projects Budgeted and Programmed for Bases Identified for Closure or Realignment" of 14 January 1994. NAVAUDSVC Report 019-S-94, "Military construction, Navy Projects Proposed for Fiscal Year 1995" of 22 December 1993. DODIG Report 94-040, "Summary Report on the Audit of Defense Base Closure and Realignment Budget Data for FYS 1993 and 1994" of 14 February 1994. DODIG Report 94-105, "Defense Base Realignment and Closure Budget Data for a Tactical Support Center at Naval Air Station Whidbey Island, Washington" of 18 May 1994. DODIG Report 94-108, "Quick-Reaction Report on the Audit of Defense Base Realignment and Closure Budget Data for Naval Station Treasure Island, Realignment and Closure Budget Data the Closure of Naval Air California" of 19 May 1994. DODIG Report 94-126, "Defense Base Station Glenview, Illinois, and Realignment Projects at Fort McCoy, Wisconsin, and Carswell Air Reserve Base, Texas" of 10 June 1994. DODIG Report 94-141, "Defense Base Realignment and Closure Budget Data For Naval Air stations Dallas, Texas, and Memphis, Tennessee, Realigning to Carswell Air Reserve Base, Texas" of 17 June 1994.* DODIG Report 95-010, "Defense Base realignment and Closure Budget Data For Marine Corps Air Station Tustin, California, and Realignment to Marine Corps Air Station Camp Pendleton, California" of 17 October 1994.* DODIG Report 95-041, "Defense Base Realignment and Closure Budget Data For The Closure of Marine Corps Air Station El Toro and Tustin, California, and the Realignment to Naval Air Station Miramar, California" of 25 November 1995.* DODIG Report 95-029, "Defense Base Realignment and Closure Budget Data For Naval Air Station Miramar, California, and Realigning Projects to Various Sites" of 15 November 1994.* DODIG Report 95-039, "Defense Base Realignment and Closure Budget Data For Naval Air Station Miramar, California, Realigning To Naval Air Station Fallon, Nevada" of 25 November 1994.* DODIG Report 95-154, "Audit of Construction Budget Data For Realigning Naval Training Centers Orlando and San Diego To Various Locations" of 21 March 1995.* DODIG Report 95-150, "Defense Base Realignment and Closure Budget Data For Closing Naval Station Charleston, South Carolina, and Realigning Projects at Various Sites" of 15 March 1995.*

Major Milestones in Corrective Action:

A. Completed Milestones:

1. Issue guidance establishing a requirement at all Navy activities to validate BRAC MILCON requirements and improve the budget estimating process.

B. Planned Milestones:

Date: **Milestone:**

3/96 Issue to all appropriate DON activities a listing of
(3/95) "lessons learned" during previous BRAC MILCON reviews.

--"Lessons Learned" are currently being compiled and will be published and distributed to coincide with execution of the BRAC IV program.

3/96 Issue guidance instructing all appropriate DON
(3/95) activities to establish BRAC MILCON as a
 separate assessable unit or include it as part of an
 existing assessable unit.

--Guidance is part of overall MILCON policy and additional time is needed to formulate and distribute.

3/96 Conduct management control reviews of BRAC MILCON.
(3/95)

9/96 Report results of the management control review via the
(9/95) chain of command in FY 1995 Annual Management Control
 Certification Statements. Provide a plan of action and
 milestones for corrective action if material weaknesses
 are identified.

3/96 Notify Defense Finance Accounting Service of the "edit"
(9/95) requirement to ensure that allocations do not exceed
 authorization in the BRAC appropriation.

3/96 Establish procedures to validate MILCON data to ensure
 accuracy and reliability of data.*

9/96 Verification: Perform quality assurance review of BRAC
 funding to verify accuracy of management reviews and
 that controls are in place and working.

*Sources added to weakness in FY 1995.

Point of Contract: Mr. Richard Gloss (703) 607-1023.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY94

Title and Description of Material Weakness: Navy's Military Personnel Records System (MPRS) Needs Replacement (OSD #94-011). MPRS administers, maintains and controls official Navy military personnel records. MPRS is a stand-alone hybrid system of electro-mechanical, photographic, manual and automated processes. Originally designed to accommodate 760,000 records with the capability to "pull" and refile 66,000 per day, the system has grown to 1,170,500 records and file actions in excess of 72,000. Overall, the many users of the system are not satisfied with its current accuracy and response times. In particular, the selection board function is inadequately supported and this has adversely affected the careers of Navy members in the past. Almost all the equipment are from single sources making MPRS vulnerable to procurement problems. The MPRS is heavily dependent upon dedicated key individuals with specific functional, managerial and technical skills.

Functional Category: Information Technology

Pace of Corrective Action:

Year Identified: FY 1994

Original Targeted Correction Date: FY 1999

Targeted Correction Date in Last Year's Report: FY 1999

Current Target Date: FY 1999

Reason for Change in Date(s): N/A

Component/Appropriation/Account Number: O&M,N (17X1804) and OPN (17X1810).

Results Indicators: Navy will have a single authoritative official system containing records for each military member. The system will provide for timely and accurate update of member records; authorized user access in a timely and accurate fashion; protection of records from unauthorized use and inadvertent disclosure to those not having a legitimate need-to-know; and effective records retention at the lowest cost to Navy.

Source(s) Identifying Weakness: Alternative Management Control Review and DON Automated Information system (AIS) Program Life Cycle Management (LCM) Documentation, "Electronic Military Personnel Records System (EMPRS)" of June 1993.

Major milestones in Corrective Action:

A. Completed Milestones:

1. Plan and budget for a MPRS replacement system which employs proven digital storage of imagery.
2. Awarded Digital Camera System contract.
3. Provide Statement of Work for backfile conversion of microfiche to Navy Regional Contracting Center.
4. Award documentation contract for Defense Personnel Record Imaging System (DPRIS)/Electronic Military Personnel Records System (EMPRS) life cycle management Milestone (LCM) I/II.
5. Request for procurement for Backfile Conversion contract issued.
6. Complete factory acceptance test for digital camera system.
7. Establish selection source evaluation board for backfile conversion contract.
8. Expand digital camera system contract for additional digital storage.
9. Install digital camera system and the storage and retrieval system.
10. Award contract and begin converting present holdings of microfiche records to digital format. (3/95)
11. Complete LCM Milestone I/II documentation. Provide EMPRS system decision paper milestone I/II briefing. (3/95)
12. Initiate microfiche to digital backfile conversion project. (3/95)
13. Release DPRIS/EMPRS statement of work and request for procurement. (3/95)

14. Award DRPIS/EMPRS contract. (9/95)

--Statement of work released, proposals received and evaluated and contract awarded 09/29/95.

B. Planned Milestones:

Date: **Milestone:**

9/96	Install pre-installation officer fitness report, enlisted evaluation, and selection board modules.
3/97	Complete microfiche to digital backfile conversion project.
3/97	Install DPRIS/ EMPRS at various locations.
9/97	Begin DPRIS/EMPRS user/staff training.
9/97	Complete DPRIS/EMPRS third-party operational acceptance testing and have system fully operational.
9/97	Complete LCM Milestone III documentation. Plan system decision paper III briefing.
9/98	Complete LCM Milestone IV documentation. Plan system decision paper IV.
9/99	Verification: Perform LCM system effectiveness review (Milestone IV).

Point of Contact: Mr. Richard Gloss, (703) 607-1023.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY94

Title and Description of Material Weakness: Controls Over Operating System and Security Software (OSD #94-012). Specific internal control discrepancies over the operating systems and software at the Marine Corps Computer and Telecommunication Activity were identified. Selected features of the Top Secret security software were improperly installed or not installed on appropriate Marine Corps computers as well as the Defense Information Service Organization (DISO) computers. Critical operating system software and data backup files were not stored off-site which flawed the automated data processing (ADP) recovery plan and threatened the integrity of the computer system and operations. System programmers were not designated as a sensitive position thus the required background investigations for sensitive system programmer positions were not being conducted.

At other Navy activities, inadequate controls over the Operating Systems made it possible for knowledgeable users to improperly access, modify, or destroy sensitive computer data and programs without detection.*

Functional Category: Information Technology

Pace of Corrective Action:

Year Identified: FY 1994

Original Targeted Correction Date: FY 1996

Targeted Correction Date in Last Year's Report: FY 1996

Current Target Date: FY 1996

Reason For Change in Date(s): N/A

Component/Appropriation/Account Number: Various

Validation Process: All corrective actions(s) are certified by the responsible command upon completion and reviewed through on-site verifications, subsequent audits, inspections, quality assurance reviews, and or management control reviews.

Results Indicators: Unauthorized person(s) could get access to sensitive DON information through unauthorized access to the ADP system and an ADP recovery plan could be impaired due to not storing critical program backup data off-site.

Source(s) Identifying Weakness: DODIG Report No. 94-065, "Controls Over Operating System and Security Software Supporting the Defense Finance and Accounting Service" of 24 March 1994. DODIG Report No. 95-066, "Controls Over Application Software Supporting The Navy's Inventories Held For Sale (Net)" of 10 December 1994.*

Major Milestones in Corrective Action:

A. Completed Milestones:

1. Establish appropriate procedures for software installation.

2. Implement procedures to designate system programmer positions as critical sensitive and perform background investigations of these personnel.

3. Limit access of authorized users to the accounting application's functions, and periodically review and validate access to that application.* (3/95)

--A review of authorized users was completed and appropriate adjustments to the security system were made. Semiannual reviews of user access will be conducted.

4. Allow only database administration personnel to have access to the Application Development System and Data Manipulation Language/On-Line utilities.* (3/95)

--Users have been denied access to the Application Development System utility and appropriate changes to user access were made for the Data Manipulation Language/On-Line utility.

5. Establish off-site storage of DON critical backup files and programs. (3/95)

B. Planned Milestones:

Date: **Milestone:**

3/96 Verification: implementation of the corrective milestones will be accomplished by an on sight quality assurance review.

*New source and milestones added to weakness in FY 1995.

Point of Contact: Mr. Richard Gloss, (703) 607-1023.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY94

Title and Description of Material Weakness: Navy Personnel and Transition Services (OSD # 94-056). Many Navy separatees and their spouses were not getting timely transition services. Navy officials responsible for providing transition services did not know who was separating from the DON.

Functional Category: Personnel and/or Organizational Management

Pace of Corrective Action:

Year Identified: FY 1994

Original Targeted Correction Date: FY 1996

Targeted Correction Date in Last Year's Report: FY 1996

Current Target Date: FY 1996

Reason For Change in Date(s): N/A

Component/Appropriation/Account Number: Various

Validation Process: All corrective actions(s) are certified by the responsible command upon completion and reviewed through on-site verifications, subsequent audits, inspections, quality assurance reviews, and or management control reviews.

Results Indicators: Navy centrally maintains adequate transition assistance data. This data will be reviewed periodically to ascertain completeness of the transition assistance program.

Source(s) Identifying Weakness: GAO Report HEHS-94-39, "Military Downsizing: Persons Returning to Civilian Life Need more Help from DOD" of 21 January 1994.

Major Milestones in Corrective Action:

A. Completed Milestones: N/A

B. Planned Milestones:

Date: **Milestone:**

3/96	Develop a Plan of Action and Milestones to ensure that
(3/95)	Navy separatees and their spouses receive timely transition services.

9/96 Verification: implementation of the corrective
(3/96) milestones will be accomplished by an onsite quality
 assurance review.

Point of Contact: Mr. Richard Gloss, (703) 607-1023.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY94

Title and Description of Material Weakness: Defense Civilian Pay System (DCPS) (OSD #94-057). A review of the current payroll procedures at some Navy activities found serious internal control weaknesses in the DCPS. Several weaknesses surfaced during the review. There is a lack of notification given to the Navy activity when attempts to illegally access the system occurs; a lack of an audit trail for late pay adjustments input directly into the DCPS to determine if input information is accurate; and no record count of labor transactions e.g., numbers of hours worked, overtime, high pay, etc. The lack of controls resulted in duplicate payments to employees and duplicate Phase I Voluntary Early Retirement Act payments.

The Defense Finance Accounting Service (DFAS) shares a major part of the responsibility for correcting this issue. DFAS' share of responsibilities is not identified in this material weakness.

Functional Category: Comptroller/Resource Management

Pace of Corrective Action:

Year Identified: FY 1994

Original Targeted Correction Date: FY 1995

Targeted Correction Date in Last Year's Report: FY 1995

Current Target Date: FY 1996

Reason for Change in Date(s): Additional data needed for completion of the POA&M.

Component/Appropriation/Account Number: DBOF (97X4930).

Results Indicators: Defense Finance and Accounting Service (DFAS) will develop procedures to improve internal controls and establish guidelines to alleviate the problems occurring in the present pay system.

Source Identifying Weakness: Management Control Review.

Major Milestones in Corrective Action:

A. Completed Milestones:

1. Conduct a working conference to determine commonality of problems with DCPS at Navy activities.
2. Research and document problems associated with the DCPS.
3. Report documented problems to DFAS.
4. Establish a plan of action and milestones (POA&M) for obtaining improvements. (9/95)

--Additional information was needed thus slipping the completion of the POA&M by 6 months from planned March date.

B. Planned Milestones:

Date: **Milestone:**

3/96 (3/95)	Apprise DFAS of the POAM so they may correct the internal control problems with DCPS.
3/96 (3/95)	Conduct a management control review of DCPS to determine if problems and issues with the system are Navy-wide and not within a segment of the Navy.
9/96 (9/95)	Verification: DON's official notification to DFAS of issues, the POAM and the findings of the management control review of DCPS.

Point of Contract: Mr. Richard Gloss, (703) 607-1023.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY94

Title and Description of Material Weakness: Unliquidated and Invalid Obligations (OSD #94-018). Internal controls regarding the validation of unliquidated obligations were not adequate. Navy activities did not have adequate procedures for validating funds obligated for commercial repair of aviation depot level repairables. The lack of sufficient guidance to ensure identification and deobligation of all invalid obligations "tied up" funds when they could have been used for valid unfunded requirements.

Activities had invalid undelivered orders and commitments because they did not comply with the Navy requirements for: periodically validating accuracy of recorded obligations and commitments; promptly recording obligations and receipt documents for material and services; and properly accruing costs for contractual services.

Activities placed insufficient emphasis on the day-to-day validation of financial transactions. Fund administrators were not sufficiently reviewing unliquidated obligations to ensure validity and proper matching of obligations and disbursements.

Functional Category: Comptroller and/or Resource Management

Pace of Corrective Action:

Year Identified: FY 1994

Original Targeted Correction Date: FY 1996

Targeted Correction Date in Last Year's Report: 1996

Current Target Date: FY 1996

Reason for Change in Date: N/A

Component/Appropriation/Account Number: Defense Business Operation Fund (DBOF) (97X4930), Other Procurement, Navy (17Y1810), Aircraft Procurement, Navy (17X1506), Operation and Maintenance, Marine Corps (O&MMC) (17X1106).

Validation Process: Management Control Review or Alternative Management Control Review during 1995.

Results Indicators: Navy activities could deobligate and reuse funds for other procurements, repairs or returned to funding sponsors.

Source(s) Identifying Weakness: Naval Audit Service (NAVAUDSVC) Report 025-W-93, "Other Procurement, Navy Funds Obligated for the Navy Outfitting Program" of 23 March 1993. NAVAUDSVC Report 003-N-94, "Funds Obligated for Commercial Repair of Aviation Depot Level Repairables" of 15 October 1993. NAVAUDSVC Report 009-W-94, "Undelivered Orders at Navy Industrial Fund Ordnance Activities" of 12 November 1993. NAVAUDSVC Report 044-W-94, "Validation of Selected Obligations of Fiscal Year 1991 Aircraft Procurement, Navy Appropriation" of 19 May 1994. NAVAUDSVC Report 050-W-94, "Validity of Selected Unliquidated Operation and Maintenance, Marine Corps Obligations" of 17 June 1994. NAVAUDSVC Report 042-95, "Validation of Selected Unliquidated Obligations of the Fiscal Year 1992 Aircraft Procurement, Navy Appropriation and Related Unliquidated Obligations Funded with Other Appropriations" of 17 May 1995.* NAVAUDSVC Report 031-95, "Obligation Validity - Procurement, Marine Corps" of 24 March 1995.*

Major Milestones in Corrective Action:

A. Completed Milestones:

1. Identify unliquidated obligations as a separate assessable unit or include it as part of an existing assessable unit.
2. Require training for fund administrators on procedures for properly recording, reviewing and reporting status of obligations incurred against authorized funds.
3. Establish requirements for quarterly obligation report of amounts adjusted due to unliquidated obligation validations.
4. Develop and implement comprehensive procedures for validating unliquidated obligations and deobligate unused funds.
5. Modify Navy policies and procedures to increase the scope of validation reviews performed by Navy activities to determine material status and cancel invalid obligations.
6. Establish and implement undelivered order validation procedures; update and review commitment records; process

obligation and receipt documents to accounting records; and establish and comply with accrual procedures.

7. Request the customers to become involved with the reviews of outstanding obligations by verifying the continued need for the undelivered material.

8. Issue guidance emphasizing fund administrators responsibilities to reduce unliquidated obligations. (9/95)

9. Track all adjusting entries made on official accounting records to determine whether any violations of Title 31, U.S. Code, Section 1517 occurred and initiate appropriate actions.*

10. Discontinue reserving funds under contracts and restrict amount of obligations on records to amounts specified under contracts.*

11. Establish procedures to notify fund administrators upon receipt of all obligation deliverables.*

12. Discontinue obligating funds for free issue material and review requisitions for free issue material in supply system, determine whether any funds obligated, and deobligate funds and make available for reuse.*

13. Require field activities to periodically review requisitions with emphasis on high unit costs, deobligate difference if current cost lower than original, and make residual funds available for reuse.*

14. Require periodic review of unmatched disbursement transaction reports.* (3/95)

B. Planned Milestones:

Date: Milestone:

9/96 Verification: Review milestones to certify the effectiveness of all corrective actions.

* New sources and milestones added to weakness in FY 1995.

Point of Contact: Mr. Richard Gloss, (703) 607-1023.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY94

Title and Description of Material Weakness: Productivity Gain Sharing (PGS) (OSD #94-058). Execution of PGS programs in the DON needs improvement. Weaknesses identified in the PGS program included: limited independent review and approval of final PGS award calculations to ensure adherence to approved financial constraints; insufficient guidance on productivity measurement requirements; and a lack of program effectiveness reviews to assess the approved programs.

DON suspended the PGS programs to allow time for the development of a comprehensive policy document which provides clear guidance and procedures for executing the program.

DOD actions impact on the extent to which DON PGS policy and guidance will need to be modified. DOD actions have not been finalized. Financial management policy issues referred to DOD included our concern about the extent to which current Defense Business Operating Fund (DBOF) accounting methods and systems can support the detailed measurements and accounting data needed to withstand financial audits. Current DOD policies do not address accounting methods and systems for PGS programs at non-DBOF and unit cost activities. Any proposed revisions and guidance are subject to review by the Defense Partnership Council.

Functional Category: Other - Productivity Improvement

Pace of Corrective Action:

Year Identified: FY 1994

Original Targeted Correction Date: FY 1995

Targeted Correction Date in Last Year's Report: 1995

Current Target Date: FY 1996

Reason For Change in Date(s): Delay in issuing guidance.

Component/Appropriation/Account Number: Various

Validation Process: Oversight will be through implementing policies and controls. Independent reviews and validation of program effectiveness and PGS award calculations will be required.

Results Indicators: Sufficient guidance will enhance productivity measurement requirements, ensure proper PGS award calculations and program effectiveness reviews.

Source(s) Identifying Weakness: NAVAUDSVC Report No. 007-S-94, "Productivity Gain Sharing" of 16 November 1993.

Major Milestones in Corrective Action:

A. Completed Milestones:

1. Suspend the PGS programs to allow time for the development of a comprehensive policy document which provides clear guidance and procedures for executing the program.

2. Require DON activities to follow DOD Accounting Manual and deduct extraordinary expenses from revenue in arriving at net operating results.

3. Require appropriate Navy activities to disclose in financial statement footnotes that general and administrative expenses were understated.

B. Planned Milestones:

Date: Milestone:

3/96 Issue a revised DON PGS instruction subject to
(3/95) constraints imposed by DOD and the National Performance
 Review requirements and recommendations.

9/96 Verification: Quality assurance reviews will be
(9/95) conducted to validate program effectiveness and PGS
 award calculations.

Point of Contact: Mr. Richard Gloss (703) 607-1023.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY93

Title and Description of Material Weakness: Requirements Determination (OSD #93-061). The Department of the Navy has identified deficiencies in the area of requirements determination for equipment, supplies, materials, training and systems acquisition. In many instances the requirements are either overstated, understated, not realistic, inadequately supported or invalid resulting in unnecessary funding and purchases or hindering fleet readiness because not enough material is available to meet requirements. In numerous cases, overstated requirements at individual DON activities were reviewed and corrected.

In some instances these inaccuracies in requirements determination result because out of date and inaccurate data were used to compute needs; flawed assumptions were used in computing the requirement; incorrect alignment of system resources and requirements; inadequate controls to ensure revalidation of existing requirements, miscommunication among responsible activities; requirement not updated to reflect the reductions in DON force structures; no documented process, standard methodology or model used; and appropriate guidance was not followed in developing requirements.

The following are prior year weaknesses that have been consolidated under the systemic area of "Requirements Determination" for the Department of the Navy:

OSD CASE #91-015: Requirements Determination for Ammunition and Centrally-Controlled Operating Stocks. Data used to determine requirements for ground ammunition were based on outdated war reserve requirements, incorrectly computed training requirements, and incomplete inventory statistics.

OSD CASE #91-024: Requirements Determination for Aircraft Acquisitions. Inadequate internal controls prevented the Navy from using the best available data and techniques to develop accurate acquisition estimates. Consequently, Navy overstated procurement and flight hour requirements for several aircraft including advance capability aircraft and training aircraft and flight hours. Use of inaccurate planning/usage data hampered Navy's ability to correctly forecast requirements.

Functional Category: Supply Operations

Pace of Corrective Action:

Year Identified: FY 1993, (FY 1991 prior year weaknesses)

Original Targeted Correction Date: FY 1995, (3/92, 9/93)

Targeted Correction Date in Last Year's Report: 1996

Current Target Date: FY 1996

Reason For Change in Date: N/A

Component/Appropriation/Account Number: DBOF (97X4930), OPN (17X1810), O&M, N (17X1804), APN (17X1506), SCN (17X1611), Milcon (17X1205), PMC (17X1109)

Validation Process: All corrective actions will be certified by the responsible component(s) through command inspections and/or quality assurance reviews, and Naval Audit Service follow-up audits.

Results Indicators: The overstated requirements may cause unnecessary funding and purchases while understated requirements could hinder fleet readiness because not enough material would be available to meet requirements. Use of inaccurate planning factors causes overstatements in budgetary requirements. A program's overstated budget request can cause other needed programs to go unfunded. Cancellation of excess requirements will result in a potential cost avoidance of \$2.324 billion.

Source(s) Identifying Weakness for OSD Case # 93-061:

1. GAO Report No. GAO/NSIAD-93-131, "Navy Supply Improved Backorder Management Will Reduce Material Costs" of 19 March 1993.
2. Naval Audit Service Report No. 035-S-93, "Management of Secure Terminal Unit III (STU III) Telephones" of 1 May 1993.
3. Naval Audit Service Report No. 037-S-93, "Submarine Advanced Equipment Repair Program Requirements" of 19 May 1993.
4. Naval Audit Service Report No. 036-C-93, "Attack Submarine Capable Floating Drydock Requirements" of 18 June 1993.
5. Naval Audit Service Report No. 021-N-93, "Selected Funded Planned Program Requirements at the Navy Aviation Supply Office" of 4 February 1993.

6. Naval Audit Service Report No. 030-N-93, "Material/Equipment Requirements for Decommissioned Ships" of 9 April 1993.
7. Naval Audit Service Report No. 043-C-93, "AH01 Helicopter Requirements" of 18 June 1993.
8. Naval Audit Service Report No. 003-S-93, "Training Aircraft Requirements" of 15 October 1993.
9. DODIG Report No. 93-049, "Navy Requirements for Currently Procured Wholesale Inventories of Repairable Items" of 1 February 1993.
10. DODIG Report No. 93-102, "Acquisition of the Unmanned Aerial Vehicles" of 27 May 1993.
11. NAVAUDSVC Report No. 038-C-94, "Acquisition of AN/ARC-182 and AN/ARC-210 Radios" of 20 March 1994.
12. NAVAUDSVC Report No. 001-C-94, "Floating Crane Requirements" of 12 October 1994.
13. NAVAUDSVC Report No. 025-N-94, "Portable High Pressure Calibrator Requirements for Trident Submarines" of 26 January 1994.
14. GAO NSID-93-151, "Better Controls Needed Over Planned Program Requirements" of 1 July 1993.
15. NAVAUDSVC Report No. 037-95, "Budget Estimates for Consolidated Automated support Systems and Test Program Sets" of 14 April 1995.*
16. NAVAUDSVC Report No. 018-95, "Budgeting for AN/ARC-210 Radio and Global Positioning System Programs" of 18 January 1995.*
17. NAVAUDSVC Report No. 060-C-94, "Acquisition and Modification of C-130 Hercules Aircraft" of 18 July 1994.*
18. NAVAUDSVC Report No. 049-95, "T-45 Training System Program" of 22 June 1995.*
19. DODIG Report No. 95-057, "Spare and Repair Parts Affected By Design and Engineering Changes" of 16 December 1994.*

OSD CASE #91-015:

1. Naval Audit Service Report No. 031-W-91, "Requirements Determinations for Marine Corps Ground Munitions" of 15 April 1991.

2. Naval Audit Service Report No. 030-S-91, "Marine Corps Management of Centrally-Controlled Operating Stocks Positioned at the Field Level-I and II Marine Expeditionary Forces" of 29 March 1991.

3. Naval Audit Service Report No. 048-C-91, "Advanced Anti-tank Weapons System-Medium Requirements" of 20 May 1991.

OSD CASE #91-024:

1. Naval Audit Service Report No. 013-S-91, "Requirements for T-44A Training Aircraft" of 18 January 1991.

2. Naval Audit Service Report No. 038-S-91, "T-45A Aircraft Acquisition" of 29 April 1991.

3. Naval Audit Service Report No. 010-C-91, "EA-6B Aircraft Requirements" of 13 November 1991.

4. GAO Audit Report (GAO/NSIAD-91-46), "T-45 Training System: Navy Should Reduce Risks Before Procuring More Aircraft" of 14 December 1990.

Major Milestones in Corrective Action for OSD Case #93-061:

A. Completed Milestones:

1. Ensure that Navy activities follow established backorder validation procedures to include periodic validation.

2. Develop procedures for determining availability of on-hand assets prior to starting procurement or refurbishment of identical components.

3. Establish written procedures for recording requirements.

4. Clarify and document Navy activities' responsibilities for requisition and planned program requirement processing.

5. Review and revalidate requirements using current guidance.

6. Correct Budgeted and programmed quantities for FY's 1996 through 2001 and planned out year quantities to reflect actual Consolidated Automated Support system (CASS) procurement requirements.* (9/95)

7. Update the engineering cost model as new information becomes available.* (9/95)

8. Establish a valid requirement of C-130s.* (9/95)

9. Base future revisions to T-45A aircraft requirement calculations on the most cost effective ways of meeting the Navy's training needs.* (9/95)

A. Completed Milestones for OSD Case #91-015:

1. Limit the mid-term ammunition requirements for mobilization to the Selected and Individual Reservist.

2. Cancel excess ammunition procurement planned for FY 1991 through FY 1994.

3. Project annual training expenditures based on criteria provided by appropriate guidance.

4. Verification: The implementation of the corrective milestones will be accomplished by an on-sight review.

A. Completed Milestones for OSD Case #91-024:

1. Cancel the FY 1992 POM planned procurement of the EA-6B and consider options to eliminate the remainder of the planned buy.

2. Reduce planned procurement of T-44A aircraft by five.

3. Develop guidance for reviewing and validating planning factors.

4. Adjust current programmed T-44A flying hours to reflect actual requirements.

5. Align system inventories programmed required with personnel/resources and document the process to show they are aligned.

6. Review overstated and understated requirements and adjust requirements to reflect corrected quantities.

7. Review and revalidate requirements in view of force structure reductions.

8. Improve established procedures for verifying requirements data before initiating purchases and awarding contracts.

9. Calculate primary training requirements based upon planned training rates, supportable overhead hour requirements, the utilization formula and supportable planning factor values.

10. Streamline development of planned program requirement training course and include a yearly refresher course.

B. Planned Milestones for OSD Case #93-061:

Date: **Milestone:**

- | | |
|------|--|
| 3/96 | Require Navy activities to either follow prescribed life-cycle management policies and prepare required acquisition documentation, or request a waiver.* |
| 3/96 | Revise guidance for the development and approval of weapon system modification programs to require the weapon system program managers to perform a breakout analysis of reparable items being removed from the weapon system to identify components of those reparable items that are affected by the modification.* |
| 3/96 | Develop procedures and processes for Navy program managers to notify the inventory control points (ICPs) of all items affected by weapon system modification programs and to provide current and accurate information for the ICPs to use in forecasting changes in requirements for those items.* |
| 3/96 | Issue supplemental guidance expanding the oversight responsibilities of weapon system program managers to ensure that current and accurate program data are |

provided to the ICPs and revise guidance to establish controls to ensure cataloging actions for modification programs are completed.*

9/96 Verification: All corrective actions will be certified by the responsible component(s) through command inspections and/or quality assurance reviews, and audits.

B. Planned Milestones for OSD Case #91-024:

Date: **Milestone:**

9/96 Re-evaluate quantity requirements of the T-45A upon
(9/95) completion of Initial Operational Capability. Based on
 analysis, make appropriate revision to the out-year
 production of the T-45A.

--A Process Action Team (PAT) was formed to revise guidance which defines the process to calculate aircraft requirements.

9/96 Obtain independent validation of aircraft requirements data when developing major acquisition baselines.

9/96 Verification: Conduct management reviews to certify the effectiveness of all corrective actions.

*Additional sources and milestones added to weakness in FY 1995.

Point of Contact: Mr. Richard Gloss, (703) 607-1023.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY93

Title and Description of Material Weakness: Excess Material and Unrecorded Inventories (OSD #93-062). Department of the Navy (DON) activities did not screen non-Defense Business Operations Fund (DBOF) ("sponsor") material on receipt, purge uneconomical-to-retain and unserviceable stock excesses; and the accounting for "sponsor" material had significant errors (e.g., inaccurate and unreported inventory) and inconsistencies (e.g., incorrect memorandum account, and incorrect value).

Many DON activities carried excess DBOF inventory and had unrecorded DBOF inventory. Internal controls were not sufficient to identify non-DBOF aeronautical change kit inventories that exceeded modification requirements and when excesses were identified, they were not effectively redistributed or reclaimed resulting in excess kits.

Some activities were ordering unneeded materials before work began and were not returning unused standard stock material to the supply system. Still others were ordering standard stock materials from an alternate source without canceling the original order. Though required, activities did not determine the disposition of unneeded direct material within 60 days following the completion or cancellation of key operations. Another reason for excess was that DON activities did not have a data base for recording and analyzing material usage data for availabilities and did not have a central control point for ordering materials for availabilities. Planners had limited incentive to order the minimum amount of material.

Shipyard material management has improved however, because adequate management controls were not in place the following problems continue to exist: inventories of materials were maintained that were not recorded on official inventory records; more shop store material was issued than needed; no assurance of compliance with policies to eliminate excess shop store inventories and protect material assets from loss. As a result inventory records were not accurate and material funds were wasted.*

The following are prior year weaknesses that have been consolidated under the systemic area of "Excess Material" for the Department of the Navy:

OSD CASE #90-020: Material at Commercial Repair Facilities. The scope of this material weakness was expanded during FY 1991. Deficiencies previously identified included excess on-hand material at Commercial Repair Facility that could have utilized by other services/activities.

OSD CASE #90-022: Potential Excess Aircraft, Ship and Submarine Parts. Navy's secondary item inventories (spares and repair parts) have grown by \$20 billion during the 1980s. There is a concern over the quantity of material retained on-hand above the Approved Force Acquisition Objective (AFAO). Material on-hand that exceeds AFAO quantities is categorized for retention or as potential excess, depending on each item's weapon system application, essentialness, and anticipated demand. Material in this category grew by over \$8 billion from FY 1980 to FY 1989. The primary reason for the increase was the result of turn-in and subsequent retention in inventory of repairable items, both installed components and supporting spares that were removed from active fleet units due to modernization and equipment upgrade.

Functional Category: Supply Operations

Pace of Corrective Action:

Year Identified: FY 1993, (FY 1990 prior year weaknesses)

Original Targeted Correction Date: FY 1997, (3/92, 9/93)

Targeted Correction Date in Last Year's Report: FY 1997

Current Target Date: FY 1997

Reason For change in Date(s): N/A

Component/Appropriation/Account Number: Non-DBOF, DBOF
(97X4930), APN (17X1506), O&M,N (17X1804)

Validation Process: All corrective actions will be certified by the responsible component(s) through command inspections and/or quality assurance reviews, and NAVAUDSVC follow-up audits.

Results Indicators: Unreported non-DBOF "sponsor" standard stock material, excess non-DBOF aeronautical change kits inventory, and excess DBOF inventory could be used to satisfy a Navy buy or repair requirements, to satisfy DLA supply system buy, repair or demand requirements, avoid Department of the Navy inventory carrying costs, and prevent unnecessary procurements.

The quantity of potential excess material on-hand takes up valuable storage space, and reducing the number of items managed may provide some productivity benefits for both stock point and inventory control point item managers. Understated supply records prevent the Navy from identifying material that may be available for use, and unnecessary procurements may result. Overstated supply records can adversely affect readiness since the Navy may be relying on nonexistent resources. Inaccurate supply reports and financial inventory records may cause incorrect budget requirement computations. These deficiencies resulted in a potential one-time cost avoidance of \$17.7 million (an additional \$1.2M identified in FY 1991).

Source(s) Identifying Weakness:

1. NAVAUDSVC Audit Report 023-S-93, "Sponsor Material Held by Selected Naval Ordnance Activities" of 8 March 1993.

2. GAO Audit Report NSIAD 92-216, "Navy Supply, Excess Inventory Held at the Naval Aviation Depots" of July 1992.

3. NAVAUDSVC Audit Report 044-W-93, "Management of Aeronautical Change Kits" of 15 June 1993.

4. NAVAUDSVC Audit Report 026-N-93, "Causes and Reutilization of Excess Material from Ship Availabilities at Naval Shipyards" of 26 March 1993.

5. GAO Audit Report NSIAD 94-181, "Navy Supply: Improved Material Management Can Reduce Shipyard Costs" of 27 July 1994.*

OSD CASE #90-020:

1. NAVAUDSVC Audit Report 027-N-90, "Management of Commercial Repair of Non-Aviation Material" of 30 January 1990;

2. Naval Audit Service Report No. 037-N-91, "Non-Aviation Repairable Assets at Navy Aviation Depots and other Department of Defense Repair Facilities" of 29 April 1991.

OSD CASE #090-022:

1. GAO Audit Report (GAO/NSIAD 90-100), "DEFENSE INVENTORY: Growth in Air Force and Navy Unrequired Parts" of 6 March 1990;

2. GAO Audit Report (GAO/NSIAD 90-111), "DEFENSE INVENTORY: Growth in Ships and Submarine Parts" of 6 March 1990.

3. DODIG Audit Report 90-010, "Summary Report on the Audits of Contract Terminations" of 21 November 1989.

Major Milestones in Corrective Action:

A. Completed Milestones for OSD CASE # 93-062:*

1. Establish internal controls for all non-DBOF (sponsor) material.

2. Ensure unrecorded DBOF material is identified, returned to inventory control, and not permitted to accumulate.

3. Assign central management with the responsibility to generate material requirements.

4. Establish procedures to verify shipyards return standard stock materials to the supply system and cancel requisitions when delivery dates are unacceptable or alternative methods are used.

5. Revise material ordering policy.

6. Issue guidance requiring top management to make periodic spot checks for unrecorded DBOF inventory.

7. Issue and implement aeronautical change kit procedures to include what is an excess, actions to be taken as a result of excess determinations, time frames for reviewing potential excess, and feedback to managers. (3/95)

8. Issue and implement procedures which assigns a high priority to management of Government Furnished Equipment aeronautical change kits to ensure that excess are identified and that timely redistribution or reclamation takes place. (3/95)

9. Establish mandatory material designator assignment procedures and include in a material usage feedback system. (9/95)

10. Establish additional controls over issues of items with personal use value.* (9/95)

11. Determine the causes for lost material at shipyards and develop strategies to reduce losses.* (9/95)

--Process Action Team investigated losses and made recommendations. New procedures for shop store issues implemented at all shipyards under Baseline Advanced Industrial Management (BAIM) will improve the handling of material.

12. Require shipyards to identify and analyze the causes of unused material as a step toward developing strategies to improve the accuracy of material orders.* (9/95)

13. Establish policy requiring periodic spot checks for unrecorded inventory.* (9/95)

--Memorandum sent to DON activities requiring them to issue local guidance controlling spot checks.

A. Completed Milestones for OSD Case #90-020:

1. Establish procedures to verify assets held by commercial facilities when making supply decisions.

2. Ensure that appropriate DON components are aware of failure information reported by commercial repair facilities.

3. Validate records of material due in from repair when making supply decisions.

4. Establish procedures for periodic verification of commercial facilities' proper use of the CAV reporting program.

5. Develop procedures for posting commercial repair transactions to financial inventory records.

6. Notify all repair contractors not in compliance, to prepare Monthly Repair Status Reports in accordance with requirements.

7. Require repair contractors under indefinite quantity-type contracts to report material received under those contracts.

8. Adjust Financial Inventory Control Ledgers to reflect standard unit price changes.

9. Make accounting entries, prior to the close of the fiscal year, to eliminate any remaining negative inventory balances from the year-end Financial Inventory Report.

10. Obtain inventory of material held for storage at commercial repair facilities and take appropriate disposition action.

11. Establish procedures to verify records of assets held by interservice repair facilities pending implementation of the Interservice Mat. Accounting and Control System.

12. Establish procedures for periodic verification of repair items reported on monthly status reports to ensure inventories at interservice repair facilities are properly reported.

13. Maintain Financial Inventory Control Ledgers for all commercial facilities.

14. Establish procedures at Interservice Repairs facilities to prevent Navy assets from being misidentified, commingled with non-Navy assets, or lost.

15. Develop procedures to provide constant visibility over excess material and promptly offer the material to other services when appropriate.

16. Determine validity of Financial inventory Ledger balances for one-time repair contracts and adjust to show correct value.

17. Coordinate with other services to develop a standardized system for reporting and recording assets on Financial Inventory Control Ledgers. (3/95)

18. Revise guidance on the physical inventory program at Interservice Repair Facilities. (9/95)

19. Use Monthly Repair Status Reports for non-CAV commercial facilities to update supply records. (3/95)

A. Completed Milestones for OSD Case #90-022:

1. Stop the practice of buying more than the economic order quantity, unless there is such specific justification in each case in which a quantity discount more than offsets the additional holding costs.

2. Require item managers for ship and submarine parts to retain summary data for major items showing the basis for an item's most recent procurement and events affecting the item.

3. Develop and implement procedures that specify the scope of supervisor's review of item managers' validation of excess on-order positions and establish critical elements in personnel performance appraisals.

4. Require training for item managers on validating excess on-order validations.

5. Update procedures for authorizing and approving changes to requirements and asset data.

6. Establish policies and procedures requiring the use of excess on-order assets as Government Furnished Material on production contracts.

7. Review policy on terminating orders for unrequired items at all levels to ensure they clearly support termination whenever practical and develop termination model.

8. Begin systematically identifying and evaluating all inactive ship and submarine items and eliminate those with no potential for future use.

9. Provide specific guidance on inventory accountability (including sponsor material), classification, reporting, and disposition in appropriate guidance and tasking documents; and correct guidance on devaluing material.

10. Direct activities to provide planned corrective actions for improving inventory management controls and reducing inventory holding costs through implementation of appropriate guidance; and provide directions to activities to turn in

unnneeded or uneconomical-to-retain standard stock to the supply system.

11. Turn into the Navy supply system all excess aeronautical change kits if they are not redistributed to satisfy other modification requirements.

12. Establish procedures to verify return of standard stock material to supply systems when there is no identified future need; cancel supply system requisitions when alternative methods of satisfying requirements are initiated; cancel unnneeded material orders and take disposition action on unused material within 60 days after key operation completion or cancellation and make this issue an item of command inspection; and adhere to material ordering procedures and order only long lead time material (including nuclear material) before Work Definition Conferences.

13. Revise performance standards for material planners' to incorporate an incentive to order only the minimum amount of material required.

14. Establish planned program requirements for overhaul repair material at Inventory Control Points.

B. Planned Milestones for OSD Case # 93-062:

Date: Milestone:

3/97 (9/95)	Develop and implement a material usage data base that accumulates and retains all data on material ordered and material usage by availability.
9/97	Ensure that over the five-year Material Control Program cycle, all aspects of excess material are covered throughout the various assessable units.
3/97	Perform management reviews to certify the effectiveness of all corrective actions. (Part of verification)
9/97	Verification: All corrective actions will certified by the responsible component(s) through command inspections and/or quality assurance reviews, and audits.

B. Planned Milestones for OSD Case #90-020:

Date: **Milestone:**

9/96 Perform quarterly reconciliation between financial and
(3/95) supply records.

9/96 Verification: Conduct management reviews to certify
the effectiveness of all corrective actions.

B. Planned Milestones for OSD Case #90-022 (FY 1995):

Date: **Milestone:**

9/96 Establish procedures to inform ship and submarine part
(3/95) inventory control points about systems being phased-out
or replaced, require inventory records to be coded to
identify the items and ensure that purchases of such
items are made only for immediate needs.

9/96 Verification: Conduct management reviews to certify
(9/94) the effectiveness of all corrective actions.

*New narrative, source and milestones added to weakness in FY
1995.

Point of Contact: Mr. Richard Gloss, (703) 607-1023.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY93

Title and Description of Material Weakness: Inadequate Operational Testing for the Acquisition of Systems and Poorly Defined Program Initiations (OSD #93-063). System are being put into production without adequately performing Operational Test and Evaluations (OT&E). Two critical areas that were not adequately tested included the reliability and maintainability of a system. The tactical system did not meet 5 of 11 hardware and software reliability goals, and problems with maintainability resulted from systems failures not being corrected within the required time. Although the tactical system has a built-in error detection system to identify problem areas, it did not effectively detect and isolate the problems, and the instructions for troubleshooting problems were not user-friendly. In a similar situation, a tactical system that was being developed and procured to replace an older version was determined to have at least 7 major deficiencies in program management elements critical to the operational testing and validation phases. Independent testing of improvements for the system to be replaced did not occur prior to their installation due to a lack of organizational coordination. These deficiencies were critical, and adversely impacted the OT&E and validation phases of the acquisition cycle.

The following are prior year weaknesses that have been consolidated under the systemic area of "Systems Acquisition" for the Department of the Navy:

OSD CASE #87-2: New Research Acquisition Program Initiations. Some new acquisition program research and development initiations faced cancellation or deferral because objectives and requirements were occasionally poorly defined, threat definitions were not always specific and supported by validated intelligence studies, and program oversight was lacking. Program initiation guidelines require revision to improve the development of documentation needed to support budget requests for RDT&E funding.

OSD CASE #88-1: In-Process Reviews and Operational Test and Evaluation of Non-Major Systems. Operational test and evaluation

results were not given adequate consideration in production decisions. Consequently, portions of total systems requirements are being fielded under Low Rate Initial Production (LRIP) approvals prior to successful completion of operational test and evaluation. Heavy use of LRIP contributes to the acquisition and fielding of large portions of total system requirements before full rate production approvals and before system deficiencies were corrected. Proper documentation for operational test and testing for evaluation test results were not being adequately reported, stored and cross referenced, and safeguards were inadequate to prevent conflict of interest in contract award for operational non-major systems. These conditions were caused by noncompliance with regulations, insufficient and conflicting regulating guidance, and inadequate oversight of the test and evaluation process.

Functional Category: Major Systems Acquisition

Pace of Corrective Action:

Year Identified: FY 1993, (FY 1987, FY 1988 prior year weaknesses)

Original Targeted Correction Date: FY 1997, (9/88, 3/90)

Targeted Correction Date in Last Year's Report: 1997

Current Target Date: FY 1997

Reason for Change in Date(s): N/A

Component/Appropriation/Account Number: RDT&E,N (17X1319), WPN (17X1507), OPN (17X1810), APN (17X1506)

Validation Process: Corrective actions are certified by the responsible DON component upon completion and reviewed through subsequent audits, inspections, and/or quality assurance reviews. Certification will commence upon completion of the final milestone of corrective action.

Results Indicators: These tactical systems support deployed operations in land, and sea warfare missions. Thus, a fully capable system, successfully developed and tested, is critical to the accomplishment of their missions. Moreover, proper operational testing and evaluation prior to the acquisition and installation of the system modifications would ensure that the improvements increase mission effectiveness and are operationally suitable. Inadequate in-process reviews of non-major systems can

affect evaluations and recommendations utilized in the program decision processes. Purchasing systems prior to successful completion of operational testing is contrary to Navy policy and circumvents controls in the decision process for approving full rate production. Approximately 60% of RDT&E funds and procurement funds are used for non-major systems.

Source(s) Identifying Weakness:

1. GAO/NSIAD-93-81, "Navy Acquisition: AN/BSY-1 Combat System Operational Evaluation" of 19 November 1992.
2. DODIG Audit Report No. 93-116, "Acquisition of Advanced Amphibious Assault Vehicles" of 18 June 1993. GA/NSIAD 93-272 "Inadequate Testing Led to Faulty SLQ-32s on Ships" of August 1993.

OSD CASE #87-2:

1. GAO Audit Report No. 86-174.

OSD CASE #88-1:

1. Naval Audit Service Report No. 033-C-88, "Multi-location Audit of In-Process Reviews of Non-major Systems" of 1 January 1988.
2. DODIG Report No. 91-115, "Consulting Services Contracts For Operational Test and Evaluation" of 22 August 1991.
3. Naval Audit Service Report No. 061-C-91, "Operational Test and Evaluation of Non-major Systems" of 30 September 1991.
4. DODIG Report 94-014, "Low-Rate Initial Production in Major Defense Acquisition Programs" of 9 November 1993.

Major Milestones in Corrective Action:

A. Completed Milestones:

1. Correct system deficiencies detected during technical and operations evaluations consisting of software and hardware modifications.

2. Modify acoustic software to correct system deficiencies observed during operational evaluation.

3. Conduct test to demonstrate capability in a realistic operational environment.

4. Postpone the procurement and installation of improvements for tactical system until OT&E is successfully completed.

5. Ensure coordination between organizations responsible for product improvements on programs which require operational testing. Develop procedures to ensure that operational tests are scheduled in accordance with a 5-Year Master Test Plan.

6. Verify corrective actions during follow-on test and evaluation of the final milestone.

7. Test reliability and maintainability in conjunction with projected software modification. (3/95)

A. Completed Milestones for OSD Case #87-2:

1. Complete a staffing and workload analysis to identify resources needed for effective oversight of RDT&E acquisitions and develop related budget requests.

2. Revise program guidance to incorporate procedures and processes needed to support new acquisition program initiatives.

3. Verification: Conduct Management reviews to certify effectiveness of all corrective actions.

A. Completed Milestones for OSD Case #88-1:

1. Review and establish plan of action and milestones for Mini-DAMA.

2. Increase monitoring of compliance with documentation requirements.

3. Apply the provisions of Public Law 101-189 requiring quantifying of LRIP at Milestone II to non-major systems.

4. Require that any increase in LRIP quantities initially approved at Milestone II be approved by the next higher decision authority.

5. Issue policy to incorporate conflict of interest provision on contractor involvement in operational testing for non-major systems.

6. Require that LRIP documentation provide the rationale for approvals that authorize more than a single years buy.

7. Provide appropriate procedures and controls for processing and approving LRIP decisions made through waivers of the formal milestone decision process.

8. Specify what detailed data must be retained to support operational test evaluation reports and the retention period for each type of data.

9. Revise guidance to incorporate procedures for changing ACAT designations when appropriate and provide update and verification procedures for centralized data base of acquisition projects.

10. Verification: Conduct internal assessment and management review to certify completion of milestones.

B. Planned Milestones:

<u>Date:</u>	<u>Milestones:</u>
9/97	Verification: All completed milestones will be certified by a management control review.

Point of Contact: Mr. Richard Gloss, (703) 607-1023.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY93

Title and Description of Material Weakness: Navy Enlisted Classification (NEC) Code Training (OSD #93-049). The control system for NEC training records and assignments is not adequate to prevent or promptly detect all material errors and irregularities in operations. Data transmission errors have occurred, reducing the accuracy of the system; unqualified enlisted personnel were allowed to enroll in and complete NEC producing courses; all NEC codes earned by enlisted personnel through formal school training were not recorded in official personnel records; and valid NEC code transactions were lost annually during ADP transmissions between the training and personnel systems.

Functional Category: Personnel and/or Organization Management.

Pace of Corrective Action:

Year Identified: FY 1993

Original Targeted Correction Date: FY 1996

Targeted Correction Date in Last Year's Report: 1995

Current Target Date: FY 1996

Reason for change in date: Weakness expanded.

Component/Appropriation/Account Number: OM&N (17X1804) and MPN (17X1453).

Validation Process: Management Control Review or Alternative Management Control Review during FY 1996.

Results Indicators: The inventory of NEC codes held by enlisted personnel will be accurately stated in official records. Therefore, the Navy will accurately train the number of personnel needed to satisfy billet requirements. A portion of training funds will be put to better use when unqualified students are not assigned to NEC producing courses.

Source(s) Identifying Weakness: NAVAUDSVC Report 049-S-93, "Enlisted Classification Code Training" of 30 June 1993. NAVAUDSVC Report 016-95, "Utilization of Navy Enlisted Classification Code Training" of 6 January 1995.

Major Milestones in Corrective Action:

A. Completed Milestones:

1. Establish separation of duties and accountability for NEC removals.
2. Research and, where appropriate, award the 121 identified NECs that were recorded in Navy Integrated Training Resources Administration System (NITRAS) but not in the personnel system.
3. Establish internal controls to ensure accuracy of NEC data transmitted, including use of sequence codes during data transmission to prevent omission of entire file transmissions, and use of a trailer record with a record count on NITRAS files transmitted to the personnel system to verify file transmission.
4. Require detailers to use NEC Manual, to determine qualifications for course assignments to NEC producing courses.
5. Reemphasize to Navy activities, including detaching commands and training activities, their responsibility for screening service members for proper qualifications before sending service members to training.
6. Investigate interface problems between NITRAS and the personnel system including transmission errors not appearing on reject listings.
7. Establish internal controls such as requiring detailers' supervisors to review detailer course assignments so that any questionable assignments might be identified and investigated.
8. Require enlisted community managers to review and document approval of requests for waiver of qualifications for NEC producing courses prior to detailer assignment.
9. Document reason for and approval of training assignments that deviate from NEC requirements stipulated in requisitions.*
10. Require supervisory approval of detailer training assignments that do not meet documented job vacancies.*

B. Planned Milestones:

Date: **Milestone:**

3/96 Revise guidance to require Quota Control Authority approval for all assignments to NEC-producing courses.*

9/96 Verification: Conduct/utilize a management control
(9/95) review or alternative management control review to
 certify the effectiveness of all corrective actions.

*Source and milestones added to weakness in FY 1995.

Point of Contact: Mr. Richard Gloss, (703) 607-1023.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY93

Title and Description of Material Weakness: Aviation Continuation Pay (ACP) bonus program (OSD #93-020). The Navy's FY 1993 ACP bonus program did not use a Center for Naval Analyses (CNA) bonus computation methodology. This occurred because there was a lack of Department of Defense (DOD) and Navy policy. This resulted in the Navy using an inconsistent bonus computation methodology. Additionally, one of the Navy's initial FY 1993 through FY 1998 budgets was overstated because it was based on the previous year's budget and did not consider the impact of reduced FY 1993 program bonus level and related out-year budget computations.

Functional Category: Comptroller and/or Resource Management.

Pace of Corrective Action:

Year Identified: FY 1993

Original Targeted Correction Date: FY 1995

Targeted Correction Date in Last Year's Report: FY 1995

Current Target Date: FY 1996

Reason for Change in Date(s): Delay with getting instruction finalized and through the chop chain.

Component/Appropriation/Account Number: BUPERS/MPN/171453.2201.

Validation Process: MCR or Alternative MCR in FY 1995.

Results Indicators: The Navy now uses a consistent bonus computation methodology. Adjustments to the ACP program budget allowed \$75.3 million to be put to better use. \$74.6M was reprogrammed during the audit and at the midyear review for the FY 1993 ACP program.

Sources(s) Identifying Weakness: (c) NAVAUDSVC Report 047-C-93, "Aviation Continuation Pay" of 29 June 1993.

Major Milestones in Corrective Action:

A. Completed Milestones:

1. Use the CNA ACP methodology to revise FY93 bonus levels and future bonus requirements.

2. Establish written policy and procedures that describe how annual department head requirements are determined.

3. Use the audit-developed out-year budget methodology to determine budget requirements.

B. Planned Milestones:

Date: **Milestone:**

3/96 Revise SECNAV Instruction 7220.79 to reflect guidance
(3/95) in Title 37 USC Section 301b and Public Law 101-189.

--Instruction is in the chop chain.

9/96 Verification: Conduct/utilize a management control
(9/95) review or alternative management control review to
 certify the effectiveness of all corrective actions.

Point of Contact: Mr. Richard Gloss, (703) 607-1023.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY93

Title and Description of Material Weakness: Department of the Navy Revolving Funds Chief Financial Officers (CFO) Financial Statements Accountability (OSD #93-021).

Industrial Activities: Property, Plant and Equipment account including accumulated depreciation, contained errors (e.g., fixed assets recorded in the financial statements could not be located; fixed assets were not removed from the financial statements after disposal or transfer; and assets were misclassified₁/). Inventories Not Held for Sale were inaccurate₁/; physical inventories were not conducted or, when conducted, were incomplete₁/; unused material was not returned to the appropriate inventory account or recorded on financial records; excess material was not disposed of timely, and stock levels were not always reviewed for excesses₁/. Accruals were posted in the wrong year, were not adequately liquidated, and were improperly written off₁/. Financial statements footnotes did not provide required disclosures. Other Non-Federal (Governmental) Liabilities included invalid Accrued Expenses - Other and Advances - Other, Non-Federal₁/.

Supply Activities: Financial inventory records for "Inventory Held for Sale" were inaccurate because the closing inventory balance included negative (credit) inventory balances. Perpetual inventory records for material at wholesale Navy stock points were not accurate. Supply and financial records for material differed and required quarterly reconciliations were not performed. Material-in-Transit (MIT)₁/ and progress payments account balances were not accurate. Unmatched Stock-in-Transit (SIT) balances were not accurate₂/, and SIT financial and inventory records differed. The Fund Balance with Treasury inappropriately included estimates for collections for non-reporting activities, estimates that were inaccurate and duplicate reporting of collections₄/. The Accounts Receivable, Net, Federal account was misstated because sales were based on estimates when actual data was not submitted₄/. Advances and Prepayments, Non-Federal account balance was not accurate₄/. Other Federal (Intragovernmental) Liabilities account balance was not accurate due to systemic processing problems₄/. Accounts Payable, Non-Federal account was inaccurate because definitized

price contract modifications were not maintained, contract review procedures were inadequate, non-electronic reporters' receipts were not recorded and receipt errors were not corrected⁴/.
Accrued Payroll and Benefits account was inaccurate⁴/.

Industrial Activities and Supply Activities: Accounts Payable, Federal were not liquidated because of erroneous and untimely recording of payment information; insufficient or nonexistent supporting documentation; late posting of receipt of goods and services; and price or quantity variances³/.

These material weaknesses represent weaknesses which are correctable within the Department of the Navy. Correction of systemic problems in supply activities MIT and progress payment account balances, however, are contingent on outside sources.

¹/FYs 1993/1994 reported material weakness still exists in FYs 1994/1995 and corrective actions continue.

²/FY 1993 reported material weakness still exists in FY 1994.

³/FY 1994 identified material weakness.

⁴/FY 1995 identified material weakness.

Functional Category: Comptroller and Resource Management

Pace of Corrective Action:

Year Identified: FY 1993

Original Targeted Correction Date: FY 1995

Targeted Correction Date in Last Year's Report: FY 1995

Current Target Date: FY 1997

Reason For Change in Date(s): Continue to expand weakness based upon current DBOF CFO audit.

Component/Appropriation/Account Number: DBOF (97X4930)

Validation Process: Plans for and progress on corrective actions, except for actions assigned to ASSTSECNAV(RD&A), will be addressed in management command submissions of the CFO financial statements supporting footnotes to DFAS with a copy to the Office of Financial Operations for monitoring. ASSTSECNAV(RD&A) plans and progress on corrective actions assigned to them will be reported to the Office of Financial Operations via the annual

certification statements under the FMFIA process. Corrective actions are also reviewed through follow-up audits, inspections, and/or quality assurance reviews.

Results Indicators: Due to high Congressional interest in effective implementation of the CFO Act of 1990, these weaknesses play a key role in financial statement accountability and credibility of the DON.

Source(s) Identifying Weakness: NAVAUDSVC Audit Report No. 074-S-92, "Marine Corps Industrial Fund Financial Statements (FY 1991)", of 30 June 1992. NAVAUDSVC Audit Report No. 075-S-92, "Financial Audit of the Fiscal Year 1991 Navy Industrial Fund (17X4912) Property, Plant, and Equipment Account", of 30 June 1992. NAVAUDSVC Audit Report No. 076-N-92, "Financial Audit of the Department of the Navy Stock Fund - Fiscal Year 1991", of 30 June 1992. NAVAUDSVC Audit Report No. 053-H-93, "Fiscal Year 1992 Consolidating Financial Statements of the Department of the Navy DBOF", of 30 June 1993. NAVAUDSVC Audit Report No. 053-H-94, "Fiscal Year 1993 Consolidating Financial Statements of the Department of the Navy DBOF", of 29 June 1994. NAVAUDSVC Audit Report No. 044-95, "Fiscal Year 1994 Consolidating Financial Statements of the Department of the Navy DBOF", of 30 May 1995.

Major Milestones in Corrective Action:

A. Completed Milestones:

1. Supply activities perform required quarterly supply and financial record reconciliations to ensure supply and financial record accuracy.
2. Supply activities perform periodic reconciliations between Master Stock Item Record and Master Data file to maintain accurate inventory balances.
3. Supply activities adjust MIT and progress payments for discrepancies identified by the auditors and reflect in FY 1993 financial statements.
4. Supply activity management command monitor Inventory Accounting and Billing Operation (PX06) software implementation to ensure timely correction of deficiencies that cause imbalances

between supply and financial records. Provide disclosure in financial statement of actual implementation date. (12/93)

5. Supply and industrial activities ensure full financial statement footnotes disclosure in accordance with DOD guidance and as agreed upon in responses to audit reports to make financial statements more meaningful. (4/94)

6. Industrial activity conduct wall to wall inventory where accuracy is less than 65% and provide results of review in FY 1994 financial statements and footnotes. (7/94)

7. Supply activity adjust SIT for invalid transactions reported by auditors and make adjustments to FY 1993 financial statements. **Completed.** 2/Milestone remains open with only FY changing to 1995. (4/95) (3/94)

8. Industrial activities return unused material to appropriate inventory account and make adjustments to financial statements prior to base closure. (4/95) 9/95)

9. 4/Supply activity revise procedures for performing contract reviews to require standard documented contract selection criteria and require the activity to maintain documentation of selection criteria, contracts selected for review and results of review.

10. 4/Supply activities correct receipt errors identified during the audit.

B. Planned Milestones:

Date: **Milestone:**

3/96	Industrial activities complete a plan to validate
(3/95)	current balances of Inventory Not for Sale, Property,
(3/94)	Plant and Equipment including depreciation and ensure
	compliance with applicable guidance to correct
	deficiencies reported by auditors and document the plan
	in the applicable footnote to the FY 1993 financial
	statements. Milestone remains open with FY changing to
	1995. FY 1994 footnote will include quantitative
	results of adjustments made as a result of this
	validation. 1/Milestone remains open with FY changing
	to 1996. FY 1995 footnote will include quantitative

results of adjustments made as a result of this validation.

- 3/96 Industrial activities complete a plan to use
(3/95) statistical sampling techniques for inventory and
(3/94) conduct inventory in accordance with applicable
instructions and determine when complete inventories
are needed and document the plan in the applicable
footnote to the FY 1993 financial statements.
Milestone remains open with FY changing to 1995. FY
1994 footnote will include quantitative results of
adjustments made as a result of this validation.
1/Milestone remains open with FY changing to 1996.
Action to complete a plan to use statistical sampling
techniques for inventory of Operating Materials/
Supplies to ensure results of physical counts
can project dollar impact and reporting that physical
counts were not performed was re-assigned.
- 3/96 Industrial activities complete a plan to determine the
(3/95) value of excess inventory and the disclosure of excess
(3/94) inventory at net realizable value in financial
statements and document the plan in the applicable
footnote to the FY 1993 financial statements.
Milestone remains open with FY changing to 1995 except
excess inventory will not be revalued on financial
statements to the net realizable value until clarifying
DOD guidance is distributed. FY 1994 footnote will
include quantitative results of adjustments made as a
result of this validation. 1/Milestone remains open
with FY changing to 1996 except excess inventory will
not be revalued on financial statements to the net
realizable value until finalization by the DBOF
Corporate Board of the policy statement for
Miscellaneous and Extraordinary Gains and Losses and
inclusion in DOD guidance. Action to complete a plan
to determine the value of excess inventory (i.e.,
Operating Materials/Supplies) was re-assigned.
- 3/96 Industrial activities complete a plan to validate the
(3/95) balance of Accounts Payable, Non-Federal to determine
the extent of invalid accruals and document the plan in
the applicable footnote to the FY 1994 financial
statements. The footnote will include quantitative

results of adjustments made as a result of this validation. 1/Milestone remains open with FY changing to 1996. FY 1995 footnote will include quantitative results of adjustments made as a result of the validation of Accrued Expenses - Other and Advances - Other, Non-Federal.

- 3/96
(3/95) Industrial activity management command validate accrual deficiencies identified by auditors and make (3/94) adjustments to FY 1993 financial statements based on errors detected. Milestone remains open with FY changing to 1995 and now applies to more than one activity. FY 1994 footnote will include quantitative results of adjustments made as a result of this validation. 1/Milestone remains open with FY changing to 1996. FY 1995 footnote will include quantitative results of adjustments made as a result of this validation.
- 3/96
(3/95 3/) 3/Supply and Industrial activities complete a plan to periodically validate the balance of Accounts Payable, Federal to assure that only valid liabilities are recorded and reported and document the plan in the applicable footnote to the FY 1994 financial statements. The footnote will include quantitative results of adjustments made as a result of this validation. Milestone remains open with FY changing to 1996. FY 1995 footnote will include quantitative results of adjustments made as a result of this validation.
- 9/96
(9/95)
(9/94) Supply activities management command take action to develop and implement Advanced Traceability and Control Ready for Issue/Returns Redistribution Order Accountability and Control System to correct the differences between the SIT financial and inventory records.
- 3/96 4/ 4/Supply activities stop estimating collections and disbursements, and sales for non-reporting activities. FY 1995 footnote will include status.
- 9/96 4/ 4/Supply activities management command correct the systems' interface and process problems to prevent the

overstatements from occurring in future processing of Other Federal (Intragovernmental) Liabilities. FY 1995 footnote will include status.

3/96 4/ 4/Supply activities have all definitizing contract modifications sent to accounting personnel. FY 1995 footnote will include status.

3/96 4/ 4/Supply activities use Defense Business Management System to report year end accrued annual leave. FY 1995 footnote will include status.

12/96 4/ 4/Supply activities capture in Accounts Payable, Non-Federal the value of material accepted at contractor plants but not yet received. FY 1995 footnote will include status.

3/97
(3/95) Supply activity monitor and report on actions taken to develop and implement PX02 and PX04 to ensure corrections of systemic problems that cause invalid MIT and Progress Payments balances. New milestone based on current and prior audit reports. 1/Milestone remains open with FY changing to 1996. FY 1995 footnote will include development and implementation status.

9/97 Verification: Plans for and progress on corrective actions will be addressed in management command submissions of the CFO financial statements supporting footnotes to DFAS with a copy to the Office of Financial Operations for monitoring. Corrective actions are also reviewed through follow-up audits, inspections, and/or quality assurance reviews.

1/FY 1993 reported material weakness still exists in FYs 1994/1995 and corrective actions continue.

2/FY 1993 reported material weakness still exists in FY 1994.

3/FY 1994 identified material weakness.

4/FY 1995 identified material weakness.

Point of Contact: Mr. Richard Gloss, (703) 607-1023.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY93

Title and Description of Material Weakness: Unmatched Disbursements. (OSD #93-022) Unmatched disbursements exist in the Navy's accounting system because: (1) funding organizations do not always obligate funds promptly; (2) controls are not adequate to ensure prompt detection and correction of disbursing office errors; (3) accounting data accuracy is not maintained; and (4) unmatched disbursements are not promptly resolved. One system, which accounts for \$57 billion (57% of the Navy's overall budget), contained 12.3 billion in unmatched disbursements as of 19 February 1992.

Now called problem disbursements, the unmatched disbursements issue has been expanded to include negative unliquidated obligations and in transit disbursements as well. DON's efforts to reduce if not eliminate the causes of problem disbursements includes working with the Defense Finance Accounting Service (DFAS) in suggesting changes in the systems to match proposed payments of obligations before payment, reducing the amount of manual data entry, and improving the level of automation in the payment process.

The DFAS shares a major part of the responsibility for correcting this issue. Under Defense Management Report Decision 910, the DFAS capitalized the accounting and finance operations. DFAS' share of responsibilities is not identified in this material weakness.

Functional Category: Comptroller and/or Resource Management

Pace of Corrective Action:

Year Identified: FY 1993

Original Targeted Correction Date: FY 1995

Targeted Correction Date in Last Year's Report: FY 1998

Current Target Date: FY 1998

Reason For Change in Date(s): N/A

Component/Appropriation/Account Number: O&M,N (17X1804), OPN (17X1810), RDT&E,N (17X1319), O&M,NR (17X1806), WPN (17X1507), SCN (17X1611), APN (17X1506), FMS (17X8242), O&M, Defense Agencies (100), Procurement, Defense Agencies (300), National

Guard & Equipment, Defense (350) RDT&E, Defense Agencies (400), Environmental Restoration, Defense (810), Missile Procurement, Air Force (57X3020), RDT&E, Air Force (57X3600)

Validation Process: Project manager will review monthly reports of corrective actions and provide periodic status reports to the ASN (FM&C) for the Secretary of the Navy. The ASN(FM&C) will meet periodically with the Comptrollers of the Management Commands and the DFAS to review progress of the project.

Results Indicators: A detailed Plan of Action and Milestones (POA&M) for reducing unmatched disbursements (problem disbursements) has been developed to track and measure progress. DFAS and the Navy will provide a monthly Problem Disbursements Progress Report to the Principal Deputy Assistant Secretary of the Navy (Financial Management and Comptroller).

Source(s) Identifying Weakness: GAO Report No. AFMD-93-21, "Financial Management: Navy Records Contain Billions of Dollars in Unmatched Disbursements" of June 1993.

Major Milestones in Corrective Action:

A. Completed Milestones:

1. Establish a Plan of Action and Milestones for reducing unmatched disbursements (problem disbursements).
2. Form a Process Action Team to review the process to determine the systemic problems causing unmatched disbursements and make recommendations.
3. Obtain and approve additional resource requirements from Navy components to competently address the problem.
4. Issue message to all funding and accounting offices emphasizing the importance of recording all obligation promptly and accurately, entering disbursements correctly, and only use authorized contract numbers and payment supporting documentation to correctly match unmatched disbursements.
5. Review and approve plans of the operating organizations to achieve the reductions and correct the process and system weaknesses.

6. Modify Navy regulations and procedures to require that copies of necessary documentation be made available to and used by the organizations responsible for resolving unmatched disbursements.

7. Advise DFAS of clearance priorities for reducing the backlog of unmatched disbursements (problem disbursements) using age and type of transaction criteria developed during FY 1994.* (3/95)

8. Support DFAS in reducing the number of unmatched disbursements (problem disbursements). Provide unmatched disbursements clearance priorities to the Navy Management Commands with definitive guidance on their role in support of DFAS-CL and DFAS-CO.* (3/95)

--During FY 1995 a DFAS-Cleveland Liaison Team was established at DFAS-Columbus to facilitate correction of problem disbursements. DON Management Commands formed Resolution Teams to deal with high dollar amounts of problem disbursements. In addition, a Problem Disbursement Project Office was established at the ASN(FM&C) level to coordinate efforts between DON and DFAS.

9. Establish and participate on a team (DON and DFAS-CL) with the purpose to reduce the backlog of problem disbursements.** (9/95)

--DON, DFAS and DODIG agreed on how to clear \$5 Billion of problem disbursements in closed accounts. During FY 1995 DON also cleared the \$5 Billion problem disbursements in closed accounts.

B. Planned Milestones:

Date: Milestone:

Superseded: Reduce existing unmatched disbursements by half.
(3/94)

--Achieved a 24% reduction in unmatched disbursements. Achieving this milestone is dependent on first completing the new milestones added in FY 1994. Process Action Team recommended establishing criteria and setting clearance priorities for reducing unmatched disbursements therefore resulting in additional milestones.

9/97 Support DFAS to facilitate process and system changes to reduce the inflow of unmatched disbursements (problem disbursements).*

--DON and DFAS developed and agreed on a list of priority items for system enhancements to help reduce the inflow of problem disbursements.

--DON working with DFAS to reduce inflow of problem disbursements by implementing prevalidation thresholds and procedures.

9/98 Verification: When the amount of unmatched disbursements (problem disbursements) are at an acceptable level over a time period, the DON will assume that the material weakness is resolved.

*New milestones added to weakness in FY 1994.

**New milestone added to weakness in FY 1995.

Point of Contact: Mr. Richard Gloss, (703) 607-1023.

UNCORRECTED MATERIAL WEAKNESSES
IDENTIFIED DURING PRIOR PERIOD
FY92

Title and Description of Material Weakness: Naval Selected Reserve Force Mobilization Requirements (OSD #92-054). Navy field activities and manpower claimants did not always use effective procedures to develop and justify Selected Reserve (SELRES) manpower requirements. Field activities did not always annually review their mobilization requirements as required. Resource sponsors did not always consider active duty personnel filling peacetime only billets as a source for filling ship and squadron mobilization requirements as required. Finally, 20 of the 22 manpower claimants interviewed did not include the function of determining SELRES manpower requirements as an assessable unit under the Navy's Management Control Program.

Functional Category: Personnel and/or Organization Management

Pace of Corrective Action

Year Identified: FY 1992

Original Targeted Correction Date: FY 1995

Targeted Correction Date in Last Year's Reports: FY 1996

Current Target Date: FY 1996

Reason for Change in Date(s): N/A

Component/Appropriation /Account Number: Navy/RPN (17X1405)

Validation Process: Management Review or Alternate Verification Review during FY 1996.

Results Indicators: Valid mobilization manpower requirements will result in Navy activities ability to accomplish mission and functions during a mobilization. Adequate SELRES manpower authorizations result in proper RPN funding.

Source Identifying Weakness: Naval Audit Service Report No. 069-S-92, "Naval Selected Reserve Force Mobilization Requirements of 30 June 92. Naval Audit Service Report No. 049-S-91, "Naval Surface Reserve Force Personnel and Training Readiness" of 25

June 1991. DODIG Audit Report 92-116, "Naval Reserve Reinforcing and Sustaining Units" of 30 June 1992.

Major Milestones in Corrective Action:

A. Completed Milestones:

1. Ensure that SELRES manpower requirements is an assessable unit.
2. Revalidate the responsible Functional Sponsor for each Functional Category.
3. Revalidate all Navy Manpower Mobilization System (NAMMOS) Functional Categories (FUNCATs) for applicability under the new planning guidance.
4. Revise SECNAV Instruction on Navy Total Force Manpower Policies and Procedures.
5. Revise the Navy Manpower Mobilization System (NAMMOS) Users Manual.
6. Promulgate the new guidance/directives to Manpower Claimants and provide guidance on the procedures to be used to conduct a zero-based review of all mobilization manpower requirements.
7. Write and issue a SECNAV Instruction on Naval Reserve Policy.
8. Perform FUNCAT reviews/update the Concept of Operations for each FUNCAT based on the new planning guidance. (3/95)
9. Add the determination/validation/ programming procedures for mobilization manpower requirements to the PERS-51 Total Force Manpower Management course. (3/95)
10. Revalidate all mobilization manpower requirements and submit necessary Manpower Change Requests. (3/95)
11. Identify any cost savings/increases resulting from the revalidation/identification of alternate resourcing of SELRES requirements under the new guidance. (3/95)

--Since 1992, DON has eliminated a substantial number of seabased SELRES requirements and a small number of shore-based

requirements. End-strength was reduced from 127,269 in FY 1991 to 81,118 for FY 1996.

B. Planned Milestones:

Date: **Milestone:**

9/96 Verification: Conduct management reviews to certify the effectiveness of all corrective actions.

Point of Contact: Mr. Richard Gloss, (703) 607-1023.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY92

Title and Description of Material Weakness: Sexual Harassment (OSD #92-064). Deficiencies in the Navy's sexual harassment program as evidenced by inappropriate behavior, improper handling of sexual harassment grievances and poor investigation of reported sexual harassment have materially damaged Navy's public image and impacted Navy morale.

Functional Category: Personnel & Organizational Management

Pace of Corrective Action:

Year Identified: FY 1992

Original Targeted Correction Date: FY 1995

Targeted Correction Date in Last Year's Reports: FY 1996

Current Target Date: FY 1996

Reason for Change in Date(s): N/A

Component/Appropriation/Account Number: O&M,N (17X1804)

Validation Process: Corrective actions will be validated during an internal management review during FY 1995. Sexual harassment will be included as a "special interest" item during command inspections, biannual Equal Employment Opportunity/Sexual Harassment Surveys and Unit Climate Assessments.

Results Indicators: Sexual Harassment in the Navy is now recognized as a problem that needs to be addressed. Training on sexual harassment prevention is now mandatory for all members, both civilian and military. "Core Value" training is now incorporated in all command courses as well as in all accession point training. Policy has been written to enforce mandatory separation and reinforce zero tolerance. A telephone hot line has been set up to assist in advice and counseling. All these corrective actions and training proved reasonable assurance that the Navy is strengthening the integrity of the employment relationship, morale and work productivity. The Biennial Navy Equal Opportunity/Sexual Harassment survey to be completed in FY 1995 will validate progress and realign policy/training accordingly.

Source(s) Identifying Weakness: 1992 Navy Inspector General (Tailhook Investigation); 1991 Update Report on the Progress of Women in the Navy, 1989 & 1991 Navy Equal Opportunity/Sexual Harassment Results, 1987 Navy Women's Study Group; 1991 Navy Personnel Research and Development Center Study on Sexual Harassment in the Civilian Work force.

Major Milestones in Corrective Action:

A. Completed Milestones:

1. Mandatory administrative separation directed to reinforce the Zero Tolerance policy on sexual harassment.
2. Re-emphasize Zero Tolerance Policy for sexual harassment.
3. Establish Standing Committee on Military and Civilian Women in the Department of the Navy.
4. Complete one day Stand Down prevention training for sexual harassment.
5. Upon receipt of the Sexual Harassment Feedback and Lessons Learned Report, the Standing Committee will chart further actions required to achieve Navy Zero Tolerance Policy.
6. Incorporate "Core Values" training into all accession point training (officer and enlisted), all command courses, recruiter and boot camp supervisory positions and key leadership courses.
7. Completed CNET lesson plan for Sexual Harassment Course.*
8. Issue new Sexual Harassment Instruction.*
9. Completed DON Informal Resolution System (IRS).*
10. Establish a database to track sexual harassment and assault.

11. Complete next Biennial Navy Equal Opportunity/Sexual Harassment Survey to determine progress and realign training/policy initiatives accordingly.

B. Planned Milestones:

Date: **Milestones:**

9/96	Verification: Complete Biennial Navy Equal
(3/96)	Opportunity/Sexual Harassment Survey (NEOSH) to
	determine progress and realign training/policy
	initiatives, accordingly.

--Original date of March 1996 changed to May 1996 to allow for proper tabulation of the Biennial NEOSH survey data.

* Additional milestones completed during FY 1993 to support ongoing corrective actions.

Point of Contact: Mr. Richard Gloss, (703) 607-1023.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY92

Title and Description of Material Weakness: Poor Utilization of Bachelor Enlisted Quarters (BEQs) Berthing Spaces and Transient Bachelor Officer Quarters (BOQs) (OSD #92-069). Deficiencies identified were:

1. Transient BQs/Government Quarters have an inefficient reservation system.

2. Some Navy commands are accumulating monies collected from billeting service charges, rather than restricting or identifying them for projects, services, or amenities to benefit transients.

3. Some Navy commands inappropriately exempted employees from using BQs/Government Quarters while on temporary duty travel.

4. Revisions in Navy policy and procedures to establish a reasonable commuting distance (15 miles/30 minutes) could result in economies.

5. Navy field activities did not properly allocate or utilize adequate available BEQ space prior to authorizing permanent duty and transient enlisted personnel to live off base.

6. Field activity management reviews were not adequate to ensure maximum utilization of adequate housing.

7. The Navy's BEQ guidance on geographical bachelor personnel drawing Basic Allowance for Quarters and living in BEQs was not in conformance with DOD policy.

Functional Category: Property Management

Component/Appropriation/Account Number: MPN (17X1453),
O&MN (17X1804)

Pace of Corrective Action:

Year Identified: FY 1992

Original Targeted Correction Date: FY 1993

Targeted Correction Date in Last Year's Report: FY 1996

Current Target Date: FY 1997

Reason For Change in Date: Replacing manual with a desktop guide and refinements required in the Bachelor Quarters Central Reservation System.

Results Indicators: Claimant per diem costs will be saved, and therefore training and mission essential travel costs. Funds from billeting service charges are not being identified or used as intended. BOQ cost avoidances totaling \$22.3 million for FY 1993 through FY 1998 could be achieved. Economy and efficiency of BEQ will improve with a FY93 - FY98 cost avoidance of approximately \$156.7 million.

Validation Process: Management Review of these areas during FY 1995.

Sources Identifying Weakness: Naval Audit Service Report No. 090-S-92, "Navy's Management of Berthing Spaces at Bachelor Enlisted Quarters" of 30 September 1992, Naval Audit Service Audit Report (004-S-93), "Utilization of Transient Bachelor Quarters", of 27 October 1992. GAO Report No. GAO/NSIAD-92-27, OSD-8819 "Transient Lodging Operations Need Effective Management Control" of October 1991 and Pers-6 internal management reviews during 1991 and 1992.

Major Milestones in Corrective Action:

A. Completed Milestones:

1. Issue policy prohibiting billeting offices from issuing Certificates of Non-availability (CNAs) when government quarters are available.

2. Revise Navy guidance to require that results of quarterly space utilization reviews be documented and retained for record purposes. Issue guidance to terminate geographical bachelor space assignments when the BEQ space is needed by higher priority personnel.

3. Identify appropriate management controls to ensure compliance with policies and directives.

4. Clearly identify potential uses of billeting funds, and urge commands to maximize use. Require commands with identified projects to restrict funds appropriately.

5. Issue message requiring claimants to transfer excess billeting funds which have not been restricted for projects to activities in need of non-appropriated funds.

6. Require that during periodic inspections, steps are included in inspection guides to perform reviews to ensure that geographical bachelor space assignments are terminated when the spaces are needed for higher priority personnel.

7. Advise field activities to utilize all available spaces prior to authorizing unaccompanied enlisted personnel to live off base.

8. Require that data be developed that depicts total BEQ capacity, total occupancy achieved, and total authorizations to live on the economy due to high BEQ utilization; report the results at least quarterly for review by local and upper management.

9. Require that periodic inspections of field activities include reviews to certify BEQ space allocations are consistent with optimum utilization needs, and authorization to live off-base are limited to those instances where BOQ space is fully utilized or personnel are qualified for such entitlement.

10. Identify magnitude/costs involved.

11. Issue policy and procedures requiring official travelers to make billeting arrangements through Commercial Travel Offices (CTOs).

12. Require use of BOQs located within reasonable distances of temporary duty travel locations.

13. Issue clarifying guidance regarding the use of adverse effect statements for temporary duty travel by defining specific reasons where the statement would be justified.

14. Establish a review of adverse effect exemptions as an issue in all Inspector General inspections.

15. Establish procedures to monitor the adequacy of BOQs through unannounced inspections and establish feedback procedures from users of those government quarters to include appropriate corrective action that should be implemented by the BOQs.

16. Require BOQs located within local commuting areas to coordinate availability prior to issuance of certificates of non-availability.

17. Establish a review of adverse effect exemptions as an issue in all Inspector General inspections.* (9/93) (9/95)

--DON policy directs all travelers use Bachelor Quarters Central Reservation System to book all lodging which is available through the servicing commercial travel office. The commercial travel office provides reports to the servicing PSD and DON Passenger Transportation Office thus eliminating any possible abuses to the "adverse affect" exemption.

B. Planned Milestones:

Date: **Milestone:**

3/96 Implement standardized BOQ reservation system.
(3/95)

--Refinements required in the system caused some delays.

9/96 Issue guidance to BOQs to correct deficiencies in
(10/93) regard to climate control, furnishings, cleanliness,
 maid service, and privacy, and to issue certificates of
 non-availability if not corrected.**

--Bachelor Quarters Management Desktop Guide being published during FY 1996 and will replace Navy Bachelor Quarters Manual.

3/97 Verification: Conduct management reviews to certify
(9/96) the effectiveness of all corrective actions.
(9/94)

*Milestone reopened in FY 1994. **Milestone reopened in FY 1995.

Point of Contact: Mr. Richard Gloss, (703) 607-1023.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY92

Title and Description of Material Weakness: Compliance with environmental laws and regulations by the Department of the Navy concerning management and elimination of ozone depleting substances. (OSD #92-080). Navy has not set policy for, assigned responsibility for, or reviewed plans for complying with the Montreal Protocol on Substances that Deplete the Ozone Layer and the President's accelerated phaseout schedule; however the Montreal Protocol was only announced in March 1992 and the National Science Foundation has yet to delineate all the conditions or requirement to be met.

The Montreal Protocol has been modified several times since 1992. The National Science Foundation has yet to solidify the requirements which are to be met; however, DON remains committed to adhering to those policies once they are approved.

Functional Category: Other - Environmental

Component/Appropriation/Account Number: Navy O&M,N

Pace of Corrective Action:

Year Identified: FY 1992

Original Targeted Correction Date: FY 1996

Targeted Correction Date in Last Year's Report: FY 1995

Current Target Date: FY 1996

Reason For Change in Date: Delay in issuing guidance.

Validation Process: GAO, the Congress and OSD require periodic reports/reviews on DON progress.

Results Indicators: Production of Class I ODSs will cease December 31, 1995. Production of new Class I ODSs after that date will not be possible. Establishment of Navy ODS stockpile and recovery and recycling programs is necessary to maintain support of mission critical equipment and non-mission critical equipment until Class I ODS substitutes are identified or equipment is replaced. Mission critical applications -- those uses of ODSs which impact combat mission capability -- may be met through the Navy ODS stockpile. Failure to properly plan, fund

and manage the ODS stockpile and recovery and recycling programs could result in mission critical system failures.

Sources Identifying Weakness: The Montreal Protocol on Substances that Deplete the Ozone Layer, Clean Air Act (CAA), the Presidential accelerated ODS production phase-out issued in 1992, and Executive Order 12843.

Major Milestones in Corrective Action:

A. Completed Milestones:

1. Complete and institute plans to recover, recycle, and reclaim ODCs during training, operation, service, maintenance and disposal of military owned equipment by publishing Department of the Navy Ozone Depleting Substances Policy Guidance. This policy is focused on the following areas: ODS Reserve for Mission Critical Applications, Recovery/Recycling/Reclamation, Refrigerant Use, Fire Fighting Use, Solvent Use, Disposal, Alternatives, Waivers.

2. Completed and institutes actions to eliminate new procurement and use of Class I ODS (unless specifically approved) in future acquisition programs by issuing an advance change to the Navy Acquisition Procedures Supplement.

B. Planned Milestones:

Date: **Milestone:**

3/96 Issue revised SECNAVINST 5090.5, "Management and
(3/95) Elimination of Ozone Depleting Substances."

--DON's July 1995 report to Congress on Ozone Depleting Substances (ODS) provided detail on DON's ODSs program including corrective actions, projects, and funding profiles. DON will also conduct a comprehensive data call in support of the DOD's Measures of Merit for Ozone Depleting Substances. Publication of revised SECNAVINST 5090.5, "Management and Elimination of Ozone Depleting Substances," will be completed by March 1996, but is not necessary to bring all DON policy and instructions into compliance with current laws and regulations.

3/96* Reduce the procurement of newly manufactured ozone depleting substances as required by the Montreal Protocol. The Protocol bans production of Halons by January 1, 1994 and production of chlorofluorocarbons by January 1, 1996. The DON will fully comply with the requirements of the Montreal Protocol and subsequent amendments as embodied in the Clean Air Act Amendments, and Executive Order 12843 - "Procurement Requirements and Policies for Federal Agencies for Ozone Depleting Substances."

3/96* Acquisition of ozone depleting substances shall be in accordance with Public Law 102-484 (Section 326), Executive Order 12843 (April 21, 1993), SECNAV memorandum of 28 May 1993: "ELIMINATION OF CLASS I OZONE DEPLETING SUBSTANCES IN DON CONTRACTS", and all implementing procurement regulations. In addition, the DON has issued policy establishing a method for the transition away from the use of Class I ozone depleting substances in all weapons systems and facilities as suitable substitutes are found, evaluated and approved.

* The above milestones are superseded by the following statement:

" The Montreal Protocol bans production of Halons after 1 Jan 94 therefore, the Navy, nor anyone else can purchase what is not produced."

9/96 Verification: Conduct reviews required by the Clean
(9/95) Air Act, specific Congressional action and the Office of the Secretary of Defense on the DON progress.

--Monthly Clean Air Act Steering Committee and Quarterly Environmental Program Reviews provides the management and validation of elimination of ODS. DOD's Measures of Merit data collection and validation will be a continuous process to determine if any additional action is required.

Point of Contact: Mr. Richard Gloss, (703) 607-1023.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY92

Title and Description of Material Weakness: Hazardous Waste Management (OSD #92-082). Several activities were not fully compliant with Federal, State and the Department of the Navy regulations in the management of hazardous waste operations. The activities did not provide sufficient management attention and oversight to hazardous waste generation, storage and disposition. Hazardous waste generated, stored and disposed of was not accurately reported in the Hazardous Waste Annual Status Report.

Functional Category: Other-Environmental

Component/Appropriations/Account Number: O&M, MC (17X1106)

Pace of Corrective Action:

Year Identified: FY 1992

Original Targeted Correction Date: FY 1994

Targeted Correction Date in Last Year's Report: FY 1996

Current Target Date: FY 1996

Reason for Change in Date: N/A

Validation Process: All corrective action(s) are certified by the responsible component(s) upon completion and reviewed through audits, inspections, quality assurance reviews and or management control reviews.

Results Indicators: Failure to comply with hazardous waste laws and regulations could further damage the environment, cause potential curtailment of operations at activities and produce possible legal action against Marine Corps commands and managers.

Source(s) Identifying Weaknesses: Naval Audit Service Report No. 028-W-91, "Hazardous Waste Management at Naval Shipyards" of 26 April 1991; Naval Audit Service Report No. 070-W-92, "Hazardous Waste-Marine Corps" of 21 July 1992; and Management Control Reviews.

Major Milestones in Corrective Action:

A. Completed Milestones:

1. Revise guidance to require activities to report hazardous waste generated and to submit hazardous waste generation data by weight.
2. Require reporting activities to use the Hazardous Waste Annual Report Guide when compiling and reporting hazardous waste data.
3. Update and distribute the Environmental Compliance and Protection Manual.
4. Increase environmental staff and contractor support to provide better oversight and guidance to installations.
5. Develop a comprehensive Environmental Training Compliance and Education Program to enhance compliance with all environmental rules and regulations.

B. Planned Milestones:

Date: **Milestone:**

9/96 Verification: Will be accomplished by an on-site review.

Point of Contact: Mr. Richard Gloss, (703) 607-1023.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY90

Title and Description of Material Weakness: Family Service Centers (OSD #90-046). Navy Military Family Service Centers serve as a focal point for information, referral and coordination of "family support system" programs and activities which work to prevent or reduce family and personal stress, and promote healthy community environments. However, program responsibilities at the installation level are not clear because of a lack of integration and an overlap of functions; standard criteria have not been established to assess future needs of the military community; and a system to measure program effectiveness is not in place.

Functional Category: Personnel and/or Organizational Management

Component/Appropriation/Account Number: O&M,N (17X1804)

Pace of Corrective Action:

Year Identified: FY 1990

Original Targeted Correction Date: FY 1992

Targeted Correction Date in Last Year's Report: FY 1996

Current Target Date: FY 1996

Reason For Change in Date: N/A

Validation Process: All corrective actions will be certified by the responsible component(s) through either a management control review or an on-site audit verification review. Certification will commence upon the completion of the final milestones of corrective action with an estimated completion date of 30 March 96.

Results Indicators: Navy will fully determine the degree Family Service Centers are accomplishing Navy requirements. A Navy system to measure customer needs and Family Service Center program's effectiveness is being implemented. Improvements to overall Family Advocacy Program policies are underway.

Source Identifying Weakness: DOD Inspector General Inspection, "Military Department Family Centers," of 27 June 1990.

Major Milestones in Corrective Action:

A. Completed Milestones:

1. Identify data elements and develop a management information report which will allow Family Centers to reflect actual Center workloads accurately.

2. Conduct quality of life surveys on regular basis, conduct trend analysis, and furnish them to the appropriate command personnel.

B. Planned Milestones:

Date: **Milestone:**

3/96 Review Family Advocacy Program(FAP) policies and
(3/95) implementation to improve community awareness,
(3/94) controls, training, emphasis, oversight, and assignment
 of responsibilities.

--Unexpected rewrites of the revised instruction caused
delay in completion of update to FAP instruction.

9/96 Verification: Conduct management reviews to certify
(3/96) the effectiveness of all corrective actions.

Point of Contact: Mr. Richard Gloss, (703) 607-1023.

CORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY94

Title and Description of Material Weakness: Material Retention and Disposal Procedures (OSD #94-004). Internal controls were either not established or not effective to ensure that unrequired and inactive inventory were reviewed for retention or disposal. Items were retained when there was either no requirement or significantly reduced requirement. Material was often obsolete, but still retained and unneeded material was pulled back from disposal when there was no known need. Navy also did not obtain maximum reutilization of assets available through canceled or completed programs. Assets no longer required were being stored instead of making them available to other Government agencies.

Inappropriate condition codes were assigned to material turned into Defense Reutilization and Marketing Service (DRMS). Material for reutilization was withdrawn and adequate control and accountability of the material after withdrawal was not maintained.

Functional Category: Supply Operations

Pace of Corrective Action:

Year Identified: FY 1994

Original Targeted Correction Date: FY 1995

Targeted Correction Date in Last Year's Report: FY 1995

Current Target Date: FY 1995

Reason For Change in Date(s): N/A

Component/Appropriation/Account Number: Various

Validation Process: All corrective action(s) are certified by the responsible components upon completion and review through onsite verifications, subsequent audits, inspections, quality assurance reviews, and review of the milestones.

Results Indicators: Compliance with guidance will ensure that material is not withdrawn without a valid requirement and that proper controls and accounting were established. Reutilization of assets available through canceled or completed program should

be maximized. Material categorized as potential reutilization and disposal will be validated which should reduce inactive and unrequired inventory. Increased oversight will ensure that excess assets are effectively and efficiently reutilized.

Source(s) Identifying Weakness: Department of Defense Inspector General (DODIG) Report No. 93-132, "Condition and Economic Recoverability of Material in the Disposal Process" of 30 June 1993. DODIG Report No. 94-070 "Material Retention and Disposal Procedures for Secondary Items" of 28 March 1994. DODIG Report No. 94-093, "Disposition of Test Assets From Canceled or Completed Programs" of 4 May 1994.

Major Milestones in Corrective Action:

A. Completed Milestones:

1. Issue guidance to require activities that turn in materials to document and prove to the Defense Reutilization and Marketing Office (DRMO) the basis for condemning material along with any related repair estimate performed that support the decision to condemn repairable items.

2. Issue message emphasizing the policy of having only authorized personnel withdraw material from the DRMO for valid requirements and provide for periodic reviews and oversight.

3. Establish procedures for reviews of contracting officers' justification for storing excess equipment from canceled or completed programs for a period of one year or more.

4. Review all items with potential reutilization and disposal material and reclassify material that is retained, and dispose of material that is obsolete and unneeded.

5. Verification: Review milestones to certify the effectiveness of all corrective actions. (9/95)

Point of Contact: Mr. Richard Gloss, (703) 607-1023.

CORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY94

Title and Description of Material Weakness: Improved Labor Estimates Can Reduce Shipyard Costs (OSD #94-019). Labor estimates for ship repairs are frequently overstated. These inflated estimates increase repair costs and create erroneous labor efficiency data. The problem occurs because shipyard planners do not always follow estimating policies, internal controls are not in place to ensure compliance, and labor standards are not always current to aid planners in preparing accurate estimates. Also, savings resulting from labor saving improvements often are not reflected in reduced benchmarks for efficiency measurements or in lower repair prices. This occurs because planners are not always aware of labor saving production processes or equipment.

Functional Category: Comptroller/Resource Management

Pace of Corrective Action:

Year Identified: FY 1994

Original Targeted Correction Date: FY 1995

Targeted Correction Date in Last Year's Report: FY 1995

Current Target Date: FY 1995

Reason for Change in Date(s): N/A

Component/Appropriation/Account Number: O&M,N (17X1804)

Validation Process: All corrective actions will be certified by the responsible component (s) through audit follow-up processes and management reviews. Certification will commence upon completion of final corrective action.

Results Indicators: Accurate labor efficiency data is essential for managers to effectively measure labor performance and identify areas needing attention. Also, labor estimates are a key factor in determining prices charged to customers for ship repairs. Having access to correct data avoids unnecessary increases in costs to customers and decreases in shipyard workload.

Source(s) Identifying Weaknesses: GAO Report NSIAD-93-199, "Navy Maintenance: Improved Labor Estimates Can Reduce Shipyard Costs" of 22 July 1993.

Major Milestones in Corrective Action:

A. Completed Milestones:

1. Implement the new training program for shipyard planners. (3/95)
2. Incorporate an audit process to independently assess labor estimates for accuracy and compliance with estimating policies. (3/95)
3. Establish a labor standards improvement initiative to ensure that frequently performed repair tasks are covered by independently developed labor standards. (3/95)
4. Establish a procedure to inform planners of all new production processes, methods, and equipment that improve work efficiency. (3/95)
5. Verification: Perform management reviews to certify the effectiveness of all corrective actions. (9/95)

Point of Contact: Richard Gloss, (703) 607-1023.

CORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY93

Title and Description of Material Weakness: Federal Employees' Compensation Act (FECA) Case Management (OSD #93-048). Federal Employees' Compensation Act (FECA) case management by Department of the Navy (DON) activities needs improvement. DON activities were not monitoring and investigating cases to minimize FECA charges. DON program management did not apply sufficient resources to ensure proper case oversight, direction, informational tools, and other support to properly implement FECA policy and guidance. Increased oversight is needed to improve overall program effectiveness.

The Department of Defense (DOD) shares a major part of the responsibility for correcting this issue. DOD, under initiative DMRD 974, included the FECA in their studies on major aspects of managing civilian personnel programs more efficiently. In December 1992, DOD decided to consolidate the FECA programs and responsibilities separately executed by the several DOD agencies and centrally manage the program at the Defense Civilian Personnel Management Service (DCPMS). On October 24, 1993, DON will transfer six FECA resources to the DCPMS. Centralized DOD-wide FECA management will include: the development of a computerized DOD-wide FECA charge back of injury costs, and an injury cases create system accessible to all DOD injury compensation specialists (projected implementation date is May 1994); placement of 27 DOD FECA liaisons located at or near the district offices of the Department of Labor's Office of Workers' Compensation Programs; institution of a system to provide FECA program information to the DOD field activities; establishment of a FECA question and answer technical advisory service; development of a DOD specific FECA training program; and the issuance of FECA program guidance and policy to foster better management of the FECA program throughout DOD.

As a result of the consolidation, 14 of the 15 recommendations in Audit Report 022-W-93 will fall under the DCPMS charter. Only the responsibility for the investigation of cases on charge back lists will remain in DON. The Office of Civilian Personnel

Management is assigned specific responsibility for 575 cases not identified to a major claimant or activity.

Functional Category: Personnel Management

Pace of Corrective Action:

Year Identified: FY 1993

Original Targeted Correction Date: FY 1995

Targeted Correction Date in Last Year's Report: 1995

Current Target Date: FY 1995

Reason For Change in Date (s): N/A

Component/Appropriation/Account Number: O&M,N (17X1804)

Validation Process: Complete the review of unassigned cases at Department of Labor District Offices contingent upon the availability of funds needed for travel to District Office locations outside the Washington, D.C. area, and obtain Department of Labor certification that costs have been switched to appropriate Federal agencies. Oversight of assigned cases will be through command inspections and/or quality assurance reviews, personnel management evaluations, and Naval Audit Service follow-up audits.

Results Indicators: Where reviews of unassigned cases locate non-Navy cases, costs can be switched to other Federal agencies for payment. For assigned Navy cases, activities will properly manage cases, return injured employees to work, or take appropriate action to separate them from Navy rolls.

Source Identifying Weakness: Naval Audit Service Report No. 022-W-93, "Federal Employees' Compensation Act Case Management" of 16 February 1993.

Major Milestones in Corrective Action:

A. Completed Milestones:

1. Completed reviews of 175 of 575 cases which were not identified to a major claimant or activity.
2. Complete reviews of 272 unassigned cases.

3. Complete reviews of remaining 128 unassigned cases, and obtain the Department of Labor certification that costs have been switched to appropriate Federal agencies. (3/95)

4. Verification: Responsible activities will certify completion of assigned cases through the computerized DOD-wide FECA charge back injury cases create system and monitoring will be through command inspection and/or quality assurance reviews, personnel management evaluations, audits, and DCPMS case management system. (9/95)

B. Planned Milestones: N/A

Point of Contact: Richard Gloss, (703) 607-1023.

CORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY92

Title and description of Material Weakness: Environmental Issues Relating To Major Systems Acquisition (OSD #92-078). The Department of the Navy (DON) must ensure all directives, instructions, manuals or other guidance implementing DoD directives 5000.1 and 5000.2 require environmental consideration during all acquisitions (new systems and major modification to existing systems) and include a requirement for all program managers to incorporate environmental considerations in the logistics support analysis.

The DON did not assess the environmental consequences, prepare and process environmental documents, integrate environmental considerations or initiate programmatic environmental analysis into its decision making process for major systems acquisitions or prior to the engineering and manufacturing development phase. Internal controls were not effective to ensure assessment of the environmental consequences of the programs.

Functional Category: Other-Environmental

Pace of Corrective Action:

Year Identified: FY 1992

Original Targeted Correction Date: FY 1993

Targeted Correction Date in Last Year's Report: FY 1995

Current Target Date: FY 1995

Reason For Change in Date(s): N/A

Component/Appropriation/Account Number : RDT&E, N (17X1319); WPN (17X1507)

Validation Process: Review of environmental considerations within the acquisition cycle is a continuous process. Successive changes to applicable laws and regulations require constant monitoring to ensure current and future compliance. DOD Directive 5000.1, DOD Instruction 5000.2 and DOD Manual 5000.2-M incorporate system safety, health hazards, and environmental impact into the Defense Acquisition Management Policies and Procedures. Subsequent to the identification of this material

weakness, DON issued SECNAVINST 5000.2A which implements the environmental review and other requirements of DOD requirements of DOD acquisition management policies and procedures. Additional DON environmental guidance to clarify scope and depth of environmental analysis requirements and review procedures for acquisition programs is being prepared for incorporation into SECNAVINST 5000.2. This material weakness will be corrected by the inclusion of this additional guidance in SECNAVINST 5000.2A. These policies/procedures will provide necessary ongoing review of environmental issues within the acquisition cycle as envisioned by the DOD Inspector General report.

Results Indicators: Environmental requirements are impacting acquisition programs. The elimination of CFCs and Halons have a major impact on current and future programs. In addition, reduction of toxic materials used in the operation, maintenance and disposal of material and equipment requires full consideration of environmental issues during the entire life cycle of equipment/material.

Source(s) Identifying Weakness:

1. DODIG Report No. 93-077, "Environmental Consequence Analyses For The V-22 Osprey Program" of 29 March 1993.
2. DODIG Report No. 93-127, "Environmental Consequence Analyses For The Joint Standoff Weapon Program" of 25 June 1993.

OSD Case #92-078

1. Final Report on the Inspection of Hazardous Waste Minimization, Inspector General, Department of Defense, Inspection Report 93-INS-06.

Major Milestones in Corrective Action:

A. Completed Milestones for OSD Case # 92-078:

1. Initiate review of the Federal Acquisition Regulation (FAR) and the Defense Supplemental (DFARS) and other guidance documents to identify opportunities to incorporate environmental considerations.

2. Draft and issue proposed changes to SECNAVINST 5000.2A to clarify scope and depth of environmental requirements for acquisition programs.

3. Conduct and document programmatic environmental analyses (PEA) and initiate, if needed, supporting NEPA documentation for the V-22 and JSOW programs. (3/95)

4. Incorporate the results of the PEA and completed NEPA actions, including mitigating actions, into the Integrated Program Summary, life-cycle cost estimates, and other documentation per DOD Instruction 5000.2 and provide a summary of completed PEA and NEPA actions for the JSOW and V-22 programs for appropriate DAB review. (3/95)

5. Coordinate proposed changes for incorporation. (3/95)

6. Issue change to SECNAVINST 5000.2A and monitor compliance through established acquisition program review. (3/95)

--SECNAVINST 5000.2A is interleaved with DODI 5000.2, Part 6, Section I. Additional policy guidance specific to acquisition programs, regarding the National Environmental Policy Act, is also provided in OPNAVINST 5090.1B of 1 November 1994.

7. Verification: All corrective actions are certified by the responsible components upon completion and reviewed through subsequent audits, inspections, quality assurance reviews or management control reviews.

--Verification will be ongoing through the Acquisition Milestone Review process.

Point of Contact: Richard Gloss, (703)607-1023

CORRECTED MATERIAL WEAKNESSES
IDENTIFIED DURING PRIOR PERIOD
FY92

Title and Description of Material Weakness: Environmental Compliance Deficiencies (OSD #92-081). An environmental management deficiency includes the lack of a method to stay abreast of changing environmental regulations at the state and local levels. As a consequence, Navy guidance is not always current, and deficiencies are often uncovered during audits and inspections. In light of the fact that Navy facilities are subject to fines and penalties under the Clean Air Act, deficiencies uncovered by regulatory agencies on environmental regulations subjects the Navy to additional and often unnecessary costs.

Functional Category: Other-Environmental

Component/Appropriation/Account Number: O&M,N (17X1804)

Pace of Corrective Action:

Year Identified: FY 1992

Original Targeted Completion Date: FY 1993

Targeted Correction Date in Last Year's Reports: FY 1995

Current Target Date: FY 1995

Reason for Change in Date(s): N/A

Validation Process: Measure revised guidance during coordination of draft, verify that personnel are in place to fulfill the functions and are operational, ensure all necessary facilities are included and assess implementation of the Navy Training Plan to determine if the programs contained in the plan have been initiated.

Results Indicators: The failure to effectively track state actions, conduct adequate training or conduct air emission inventories could potentially lead to violations of statutory and regulatory requirements. Failure to update implementing guidance on air compliance or to educate field personnel on the budget cycle could result in inefficient management of the air program. Because the corrective actions are in various stages of

implementation, minimal impact to operations is expected while the corrective actions are being fully implemented.

Source(s) Identifying Weaknesses: Naval Inspector General Reports of Hazardous Waste and Environmental Program Assessments for the following activities: Charleston Naval Shipyard, Naval Submarine Base, Bangor, Naval Air Station, Adak, Naval Air Station, Brunswick, Naval Aviation Depot, Jacksonville, Naval Shipyard, Mare Island, the Norfolk Complex, Pearl Harbor Naval Shipyard, Public Works Center, Pearl Harbor, Naval Activities, San Diego Area, and Naval Air Station Whidbey Island; Management Control Review.

Major Milestones in Corrective Action:

A. Completed Milestones:

1. Update implementing guidance Second Half, FY 1993 to reflect recent regulatory requirements enacted by the Environmental Protection Agency.
2. Assess the progress on implementing a Navy-wide training plan for environmental awareness.
3. Revise implementing guidance to more comprehensively address the budget cycle and its aspects as it relates to environmental compliance.
4. Finalize a schedule for conducting necessary activity Clean Air Act inventories. (9/95) (3/94)
5. Verify implementation of a state tracking system. (9/95) (3/94)
6. Verification: Measure revised guidance during coordination of draft, verify that personnel are in place to fulfill the functions and are operational, ensure all necessary facilities are included and assess implementation of the Navy Training Plan to determine if the programs contained in the plan have been initiated. (9/95)

Point of Contact: Mr. Richard Gloss, (703) 607-1023.

CORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY90

Title and Description of Material Weakness: Material Handling and Container Requirements (OSD #90-027). Mission area analyses were not conducted to determine the numbers and types of container handling equipment planned to support amphibious landings. Activities did not adequately analyze and review the requirements to acquire new forklifts for the Fleet Marine Forces, did not consider overlapping capabilities of new equipment in setting allowances, and set allowances for artillery units higher than needed. Also allowances were established for Intermediate Size containers which exceeded previously approved quantities and user requirements.

Functional Category: Property Management

Component/Appropriation/Account Number: PMC (17X1109), O&M,MC (17X1106), NSF (17X4911), and RDT&E (17X1319)

Pace of Corrective Action:

Year Identified: FY 1990

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report: FY 1995

Current Target Date: FY 1995

Reason For Change in Date: N/A

Validation Process: All corrective actions are certified by the responsible component(s) upon completion and reviewed through subsequent audits, inspections, quality assurance reviews or management control reviews. Certification will commence upon completion of the final milestone of corrective action.

Results Indicators: The numbers and types of container handling equipment, forklifts, and total life cycle cost for acquisition of Intermediate Size Containers could be overstated. A potential, substantial one-time cost avoidance may be realized.

Source Identifying Weakness: Naval Audit Service Report No. 053-W-90 "New and Replacement Material Handling Equipment and

Intermediate Size Container Requirements of the Fleet Marine Forces," of 20 June 1990.

Major Milestones in Corrective Action:

A. Completed Milestones:

1. Terminate the Container Handler All Purpose program.
2. Review and approve all changes to Fleet Marine Force Intermediate Size Container requirements.
3. Delete insert and rack completed acquisitions for 332 quadruple containers.
4. Cancel the product improvement program for Intermediate Size Containers.
5. Conduct a mission area analysis of container handling requirements.
6. Correct the life cycle estimate for one Intermediate Size Container and reduce planned procurement of horizontal connectors from four to three.
7. Reduce Intermediate Size Container requirements.
8. Determine the feasibility of increasing the off load time for Assault Echelon supplies.
9. Perform mission analysis for forklift requirements for the Fleet Marine Force.
10. Review and revalidate forklift requirements for artillery units.
11. Develop consolidated Required Operational Capability document for all container handling equipment.
12. Develop consolidated Required Operational Capability document for forklifts.

13. Verification: Validation of the implementation of corrective milestones will be accomplished by on-site reviews.
(3/95)

Point of Contact: Mr. Richard Gloss, (703) 607-1023.

CORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY86

Title and Description of Material Weakness: Inaccurate Inventory Management of Torpedo Propulsion Batteries and Sonobuoys (OSD #86-16). Unserviceable propulsion batteries with recoverable silver valued at \$6 million were being held needlessly in storage because of improper recording procedures. Coding errors also led to the disposal of batteries prior to reclaiming silver. In addition, inadequate controls over sonobuoy inventories resulted in considerable amounts of unrecorded assets, failure to investigate losses by accounting, and improper stock rotation procedures and failure to claim silver. Navy's ability to properly determine sonobuoy requirements was impaired which could lead to unnecessary procurements or shortages.

Functional Category: Supply Operations

Pace of Corrective Action:

Year Identified: FY 1986

Original Targeted Correction Date: FY 1992

Targeted Correction Date in Last Year's Report: FY 1995

Current Target Date: FY 1995

Reason For Change in Date: N/A

Component/Appropriation/Account Number: OPN (17X1810)

Validation Process: All corrective actions are certified by the responsible component(s) upon completion and reviewed through inspections and monitoring of the Conventional Ammunition Integrated Management System. Certification will commence upon completion of final milestone of corrective action.

Results Indicators: N/A

Source Identifying Weakness: Navy Audit Service Report T20055

Major Milestones in Corrective Action:

A. Completed Milestones:

1. Review and evaluate battery inventory to properly identify and code excess and unserviceable batteries.
2. Screen excess batteries for Foreign Military Sales requirements and direct shipment of excess assets to Defense Property Disposal Office, as appropriate.
3. Establish a uniform reporting system to inventory sonobuoys.
4. Implement a Fleet Optical Scanning Ammunition Marking System (FOSAMS) and train appropriate personnel.
5. Complete a physical inventory of all sonobuoys and provide full visibility of assets in the Conventional Ammunition Integrated Management System (CAIMS).
6. Verification: Conduct management reviews and monitor the Conventional Ammunition Integrated Management System to certify the effectiveness of all corrective actions. (9/95)
(3/94)

Point of contact: Mr. Richard Gloss, (703) 607-1023.

ANNUAL REPORT ON NAVY OPERATING ACCOUNTING
SYSTEMS FOR FISCAL YEAR 1995

Pursuant to Section 4 of the Federal Managers' Financial Integrity Act of 1982, the Department of the Navy has reviewed its primary and administrative accounting systems as defined by the General Accounting Office (GAO), during the fiscal year ending September 30, 1995. The review of each system or system segment was performed by Navy Managers and encompassed the accounting principles, standards and related requirements prescribed by the DoD Financial Management Regulation 7000.14-R. The method of review was the DoD System Manager/User Review (SM/UR) guide.

The Navy has 32 operating accounting systems. The 32 systems were identified as "legacy" by DFAS because they are not adequate as standard or interim migratory systems due to poor design or performance; inadequate capability and support; or nonconformance with policy, regulatory or statutory requirements. In addition, Navy systems are not in compliance with the integration, accounting classification codes and general ledger requirements of Revised OMB Circular A-127.

TAB D

DEPARTMENT OF THE NAVY
ANNUAL INVENTORY OF OPERATING
ACCOUNTING SYSTEMS
FISCAL YEAR 1995

A. OPERATING ACCOUNTING SYSTEMS SUBSTANTIALLY IN COMPLIANCE WITH
GAO ACCOUNTING PRINCIPLES, STANDARDS, AND RELATED REQUIREMENTS

None

B. OPERATING ACCOUNTING SYSTEMS NOT IN COMPLIANCE WITH GAO
ACCOUNTING PRINCIPLES, STANDARDS, AND RELATED REQUIREMENTS

System Name Footnote"/" Indicates Plan/Disposition

CIVILIAN PAY SYSTEMS

N103 U.S. Naval Office, Singapore (CIVPAY)	10/27/96	1/
N104 U.S. Naval Station, Rodman, Panama Canal Zone (CIVPAY)	1/21/96	1/
N106 Marine Corps Contracted CIVPAY System, Camp Butler, Japan	9/1/96	1/
NR44 Naval Station Rota Spanish Civilian Payroll System (CIVPAY) (FNDH)		3/
NR45 Personnel Support Detachment, Keflavik (CIVPAY) (FNDH)		3/
NR46 Naval Support Activity Naples Italian Civilian Payroll System (CIVPAY) (FNDH)		3/
NR47 Naval Air Station Sigonella Italian Civilian Payroll System (CIVPAY) (FNDH)		3/
NR49 Naval Activity, United Kingdom, London (CIVPAY) (FNDH)		3/
NR53 Personnel Support Detachment, Bermuda (CIVPAY) (FNDH)	9/1/95	1/

System Name	Footnote"/" Indicates Plan/Disposition
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NR54 U.S. Navy Office, Singapore (CIVPAY) (FNDH)	3/
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NR55 Naval Support Force, New Zealand (CIVPAY) (FNDH)	3/
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NR56 U.S. Naval Purchasing Department, Hong Kong (CIVPAY) (FNDH)	3/
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GENERAL FUND ACCOUNTING SYSTEMS

N001 Navy Headquarters Financial System (NHFS)	7/
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N004 Responsible Office Automated Resource System	7/
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N063 Authorization Accounting Activity - Resource Management System, Rota, Spain	7/
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N072 Permanent Change of Station Reservation/Obligation Database	8/
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NR25 Reserve Financial Management System	7/
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C. OPERATING ACCOUNTING SYSTEMS WITHOUT COMPLETED SM/UR

The system managers, or primary users, of the following systems did not complete a System Manager/User Review guide for this fiscal year. As a result the systems do not have a system manager compliancy rating. Due to the lack of a complete review, we consider them to be non-compliant.

System Name (Acronym)

DEFENSE BUSINESS OPERATIONS FUND ACCOUNTING SYSTEMS

N017 Department of the Navy Industrial Budget Information System	9/
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CIVILIAN PAYROLL SYSTEMS

NR51 Naval Medical Research Unit, Cairo, Egypt (CIVPAY) (FNDH)		3/
N099 Commander, Fleet Activities, Okinawa (CIVPAY)	9/1/96	1/
N101 Naval Medical Research Unit, Cairo, Egypt (CIVPAY)	10/27/96	1/
NR48 U.S. Naval Station, Rodman, Panama Canal Zone (CIVPAY) (FNDH)		3/
NONAPPROPRIATED FUND ACCOUNTING SYSTEMS		
NR59 Navy Base Level Accounting System (BLAS)		10/
NR60 Navy Recreation & Mess Central Accounting		10/

TRUST FUND ACCOUNTING SYSTEMS

N044 USNA Trust Funds Accounting System 7/

D. ACCOUNTING SYSTEMS THAT WERE NOT REVIEWED

The following systems were not reviewed based on the reasons cited in the footnotes.

System Name (Acronym)

GENERAL FUND ACCOUNTING SYSTEMS

N071 Military Personnel, Navy, Financial Management System 9/30/94 6/

DEFENSE BUSINESS OPERATIONS FUND ACCOUNTING SYSTEMS

N014 NAVSUP Resale Operations Management System 4/

CIVILIAN PAY SYSTEMS

N098 Naval Activities, United Kingdom, London (CIVPAY) 9/30/94 2/

N102 U.S. Naval Facility, Argentina, Newfoundland (CIVPAY) 9/30/95 2/

NR52 U.S. Naval Facility, Argentina, Newfoundland (CIVPAY) (FNDH) 9/30/95 2/

FOREIGN MILITARY SALES SYSTEMS

N046 Student Training Analysis & Tracking Information System (STATIS) 5/

TRAVEL PAYMENT

NR37 Microcomputer Claims Processing System 11/

ANNUAL REPORT ON NAVY OPERATING ACCOUNTING
SYSTEMS FOR FISCAL YEAR 1995
FOOTNOTES

- 1/ Date indicates when system that pays U.S. civilians will be inactivated and accounts paid by the Defense Civilian Pay System.
- 2/ Date indicates when system that paid U.S. or foreign civilian employees was deactivated due to base closing or consolidation.
- 3/ System pays foreign civilians, has not been capitalized by DFAS-CL. There is no plan to make the system compliant.
- 4/ System not reviewed based on the Navy Supply System Command determination that system is a Shipboard Inventory Management feeder system to finance/accounting systems and not a finance or accounting system.
- 5/ Annual system review administered by DFAS-DE.
- 6/ System deactivated and functions added to PRODS, FMSI Number N072 and AAS, FMSI Number N133 on the date shown.
- 7/ System finance/accounting functionality will be added to the Standard Accounting & Reporting System, FMSI Number N043.
- 8/ System under review by DFAS-CL.
- 9/ System finance/accounting functionality will be added to the Central Data Base System, FMSI Number N007.
- 10/ DFAS-HQ is developing a strategy for consolidation of non-appropriated fund systems.
- 11/ DFAS-HQ is reviewing to determine appropriate migration system.